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HEARING

BEFORE THE

COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE

SIXTY-THIRD CONGRESS

SECOND SESSION

ON

CONVENTION BETWEEN THE UNITED STATES
AND NICARAGUA

PART 1

Printed for the use of the Committee on Foreign Relations



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COMMITTEE ON FOREIGN RELATIONS.

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ETHEL DUFFY TURNER PAPERS

Draft of suggested convention between the United States and Nicaragua in substitution of the one furnished by the Nicaraguan Legation, May 26, 1914.

PREAMBLE.

The Government of the United States of America and the Government of Nicaragua, being animated by the desire to strengthen their ancient and cordial friendship by the most sincere cooperation for all purposes of their mutual advantage and interest; and the Government of Nicaragua being desirous to promote in every way the economic development and prosperity of Nicaragua under constitutional government; and the Government of the United States being in full sympathy with these aims and desiring to lend to the Government of Nicaragua all proper assistance in these matters; and it being the desire of both Governments to reaffirm the principle of the first paragraph of the protocol of December 1, 1900, and to provide for the possible future construction of an interoceanic ship canal by way of the San Juan River and the Great Lake of Nicaragua, or by any other route over Nicaraguan territory, whenever the construction of such canal shall be deemed by the Government of the United States conducive to the interests of both countries, and the Government of Nicaragua wishing to facilitate in every way possible the successful maintenance and operation of the Panama Canal, the two Governments have resolved to conclude a convention to these ends, and have accordingly appointed as their plenipotentiaries, ———, who having exhibited to each other their respective full powers, found to be in good and due form, have agreed upon and concluded the following articles:

ARTICLE I.

The Government of Nicaragua grants in perpetuity to the Government of the United States the exclusive proprietary rights necessary and convenient for the construction, operation, and maintenance of an interoceanic canal by way of the San Juan River and the Great Lake of Nicaragua or by way of any other route over Nicaraguan territory, the details of the terms upon which such canal shall be constructed, operated, and maintained to be agreed to by the two Governments whenever the Government of the United States shall notify the Government of Nicaragua of its desire or intention to construct such canal.

ARTICLE II.

To enable the Government of the United States to protect the Panama Canal and the canal and proprietary rights granted to the Government of the United States by the forgoing article, and also to enable the Government of the United States to take any measure necessary to the ends contemplated herein, the Government of Nicaragua hereby leases for a term of ninety-nine (99) years to the

Government of the United States the islands in the Caribbean Sea known as Great Corn Island and Little Corn Island; and the Government of Nicaragua further grants to the Government of the United States for a like term of ninety-nine (99) years the right to establish, operate, and maintain a naval base at such place on the Gulf of Fonseca as the Government of the United States may select. The Government of the United States shall have the option of renewing for a further term of ninety-nine (99) years the above leases and grant upon the expiration of their respective terms. It being expressly agreed that the territory hereby leased and the naval base which may be maintained under the grant aforesaid shall be subject exclusively to the laws and sovereign authority of the United States during the terms of such lease and grant and of any renewal or renewals thereof.

ARTICLE III.

The Government of Nicaragua hereby grants to the Government of the United States in perpetuity the rights of ships of the merchant marine of the United States to engage in coastwise trade in Nicaragua, with a right to discharge or load in part or in whole at all Nicaraguan ports while engaged in any voyage on terms identical with those which may be imposed from time to time on Nicaraguan citizens or vessels.

ARTICLE IV.

The Government of Nicaragua shall never, without the consent of the United States, enter into any treaty or other compact with any other foreign power or powers which will impair or tend to impair the independence of Nicaragua or the rights hereby granted to the United States, nor in any manner authorize or permit any foreign foreign power or powers to obtain by colonization or for military or naval purposes, or for any purpose whatsoever, lodgment in or control over any portion of the territory of the Republic of Nicaragua or any control over its government.

ARTICLE V.

The Government of Nicaragua shall not contract or assume any public debt to pay the interest upon which and to make provision for a reasonable sinking fund for the ultimate discharge of which the ordinary revenues of the Republic of Nicaragua, after defraying the current expenses of government, shall be inadequate.

ARTICLE VI.

The Government of Nicaragua consents that the United States may exercise the right to intervene for the preservation of Nicaraguan independence, the maintenance of a constitutional Government adequate to protect the life, property, and individual liberty, and the free right of suffrage, and for the discharge of any obligations which it may contract or assume, or which may be imposed upon it by international law and usage.

ARTICLE VII.

In consideration of the foregoing stipulations and for the purposes contemplated by this convention, and for the purposes of reducing the present indebtedness of Nicaragua, the Government of the United States shall, upon the date of the exchange of ratifications of this convention, pay for the benefit of the Republic of Nicaragua the sum of three million dollars (\$3,000,000) United States gold coin of the present weight and fineness, to be deposited to the order of the Minister of Finance of Nicaragua in such bank or banks or with such banking corporation as the Government of the United States may determine.

ARTICLE VIII.

This convention shall be ratified by the high contracting parties according to their respective laws, and the ratifications thereof shall be exchanged at Washington as soon as possible.

In faith whereof, we, the respective plenipotentiaries, have hereunto affixed our hands and seals.

Telegram sent by the President of Nicaragua to the President of the United States.

The effect of the Platt amendment on Cuba has been so satisfactory that, since your Government is considering a canal convention with Nicaragua, I respectfully request that said convention be made to embody the substance of the Platt amendment, so that my countrymen may see Nicaragua's credit improved, her natural resources developed, and peace assured throughout the land. I believe that revolutions will cease if your Government can see its way clear to grant the addition of the amendment as requested.

Reply of the President of the United States to the above telegram from the President of Nicaragua.

I am in receipt of your telegram and thank you for the same. We have endeavored to prove in every possible way our disinterested friendship for the Republics of Latin America, and I am gratified to learn that the policy of this Government toward Cuba has so favorably impressed you. Having the assurance that these provisions of the proposed treaty embodying the substance of what is known as the Platt amendment have been written at your request, and that, in your judgment, they will prove helpful to your country, it will afford me great pleasure to give to the treaty my cordial approval.

[Second indorsement.]

G. B. No. 414-3.

JANUARY 27, 1914.

From: President General Board.

To: Secretary of the Navy.

Subject: Right to use Fonseca Bay and Corn Islands as naval stations.

Returned.

2. The Gulf of Fonseca is 736 miles from Panama. From Panama to San Diego the United States has no place under its jurisdiction except Fichilinquí Bay, Lower California, which is a considerable distance off the route. Moreover, the facilities there are very limited. The following distances have been furnished by the Hydrographic Office:

	Sea miles.
From Panama direct to—	
San Diego.....	2,643
San Francisco.....	3,243
Honolulu.....	4,685
From Gulf of Fonseca to—	
Panama.....	736
San Diego.....	2,185
San Francisco.....	2,587
Honolulu.....	4,035
Corinto.....	62

From these tables it is seen that the distances from Panama to San Diego, San Francisco, and Honolulu via Fonseca are, respectively, greater than the direct distances by 78, 78, and 86 miles.

3. These increases are quite immaterial when compared with the great shortening of the total distance to be steamed in one leg by having a place at Fonseca where ships can refuel in quiet water that is under United States jurisdiction. This is of no especial advantage in time of peace, but it would be a great advantage in time of war. The straight run from Panama to San Diego is greater than the steaming radius of some destroyers and unsafely near that of nearly all, while 2,185 miles, the distance from Fonseca to San Diego, can be counted on for practically all of them. A similar advantage would result for the armored cruisers, whose steaming radius is uncomfortably close to the direct distance from Panama to Honolulu, but is well above that from Fonseca to Honolulu.

4. It thus appears that it would be a real advantage to the United States in time of war to have a safe and quiet harbor at Fonseca, the use of which would obviate any awkward questions of violating the neutrality of a Central American State, on the one hand, or, on the other, of fueling outside the limit of jurisdiction, which is now 3 miles, but with a considerable body of opinion among international jurists looking to the extension, even up to 10 miles.

5. The attendant disadvantage is that the enemy of the United States could in war seize such a place without itself violating neutrality. This, while admittedly true, is not in itself a deterrent in consideration of the fact that our enemies must come a long distance over seas and pass our own fortified positions from any direction to get to Fonseca.

6. At a number of times in the past the General Board has advised the department that no strategic necessity existed for a coaling station at Fonseca, and to this opinion it adheres, using the words "coaling

stations" to mean an establishment having a considerable supply of fuel store there on shore. The trend of opinion, since the world cruise of our battleships, is against any further extension of coaling (fuel) stations at undefended outlying places and in favor of a reliance upon fuel ships that can accompany or meet the fleet. In this more modern sense, however, a quiet place, under our own jurisdiction, where refueling can be carried on, is a necessity if refueling is to be possible at any and all times. The name, whether coaling (fuel) station or some other, is not important if the clear right to use the harbor in time of war is conveyed. For reasons given in the preceding paragraphs the right to use the Gulf of Fonseca, given by former treaty, would be very advantageous to the United States.

7. A similar right to use the Corn Islands, in the Caribbean, would be useful, but not to the same extent as in the Gulf of Fonseca. These islands are to one side of direct routes to the Panama Canal from the Atlantic and are, indeed, off the usual route from Yucatan Strait to the canal. They are, however, close to the inside route, that runs close along the east coast of Honduras and Nicaragua south from Cape Gracias a Dios. They are about 45 miles immediately off Bluefields and about 85 miles to the northward and eastward from Greytown, at the mouth of the San Juan River. There is no harbor on either island worth the name, but ships can coal, and have coaled, in their lee. They are the nearest islands to the continental coast in their vicinity. The right to use the Corn Islands is of considerable practical value to the United States, and the General Board believes it advisable to have that right, as suggested by the aid for operations.

GEORGE DEWEY.

DEPARTMENT OF COMMERCE,
OFFICE OF THE SECRETARY,
Washington, June 16, 1914.

MY DEAR MR. SECRETARY: The right granted under article 2 of the Nicaraguan treaty that "the United States shall have the right to establish, operate, and maintain for a like term of 99 years a naval base" at such time and at such place on the Gulf of Fonseca as it may designate, carries with it important incidental commercial advantages. It necessarily involves providing lights, buoys, and other aids to navigation and the marking of these upon the regular commercial charts. Such charts now show almost an entire absence of aids to navigation. This change would immediately make the roadstead available for commercial use to a degree far greater than at present. The depth of water within the Nicaraguan portion of the Gulf of Fonseca is ample for large commercial vessels. To these advantages would be added that of obtaining a fuel supply. There would thus be three favorable conditions—fuel, shelter in deep water, and aids to navigation. From these would arise naturally the development, as time went on, of the other commercial opportunities of the gulf. These are provided in the stream called Estero Real, entering the Gulf of Fonseca through Nicaraguan territory from the south, which has been navigated for 30 miles by vessels drawing 10 feet of water.

There are also in the territory of Honduras and Salvador bordering on the Gulf of Fonseca three other inlets which are navigable, on one

of which in Salvador is located the port of La Union, with a population of about 2,000, nearly related to the city of San Miguel. From this point a railway runs to the city of Salvador. In the territory of Honduras on the Gulf of Fonseca is the port of Anapala, with a population of about 2,000.

By obtaining a foothold, therefore, in the Gulf of Fonseca, direct access is had to the territory of three Republics having valuable natural resources largely undeveloped. The result can hardly fail to be advantageous alike to the commerce of the United States and to that of the Republics named.

A copy of a chart of the Gulf of Fonseca is attached hereto.

Yours, very truly,

WILLIAM C. REDFIELD,
Secretary.

The SECRETARY OF STATE,
Washington, D. C.

CONVENTION BETWEEN THE UNITED STATES AND NICARAGUA.

JUNE 18, 1914.

COMMITTEE ON FOREIGN RELATIONS,
UNITED STATES SENATE,
Washington, D. C.

The committee met at 10.30 o'clock a. m.

Present: Senators Stone (chairman), Shively, Hitchcock, Williams, Pomerene, Smith of Arizona, Smith of Michigan, McCumber, and Sutherland; also Hon. William Jennings Bryan, Secretary of State.

The CHAIRMAN. The committee will come to order. Mr. Douglas, you may proceed.

STATEMENT OF CHARLES A. DOUGLAS, ESQ., ATTORNEY AT LAW, WASHINGTON, D. C., COUNSEL FOR THE GOVERNMENT OF NICARAGUA.

Mr. DOUGLAS. Mr. Chairman and gentlemen of the committee, I have not really a great deal to say with reference to this treaty. I will state that I appear as counsel for the Government of Nicaragua and in behalf of the proposed treaty between the United States and Nicaragua, and I beg to state that the negotiations with reference to this particular treaty have been pending since the month of May of last year; that this treaty proposes to take the place of one that had theretofore been negotiated during the administration of President Taft, which treaty was known as the Knox-Castrillo treaty. Castrillo was the minister of Nicaragua to the United States, and the treaty we now propose, that is now submitted to the committee, does not differ essentially, except in few particulars, from the one that the Secretary of State presented to the committee, I think, in the month of June or July of last year. It contains, as its distinctive features, first, the grant of an option to the United States to build, construct, and maintain the Nicaragua Canal by way of the San Juan River and the Great Lake of Nicaragua, or by any other route over Nicaraguan territory which the United States may see proper to select. It grants to the United States a lease for 99 years, renewable for a like period of 99 years; the use of the two islands on the Atlantic coast known as Great Corn Island and Little Corn Island; it grants to the United States a right to build a naval base anywhere on the shore or within the Gulf of Fonseca within the territory of the Republic of Nicaragua, which, of course, is on the west coast of the extreme northernmost limit of the Republic of Nicaragua. It also grants to the United States, in common with but exclusive of all other nations, the right to the coastwise trade either through the proposed canal or otherwise.

Secretary BRYAN. Not to the exclusion. We struck that out.

Mr. DOUGLAS. It may be so. I have not seen that last clause. I first thought we were going to strike it out entirely.

Senator WILLIAMS. That is, the use of the so-called canal?

Mr. DOUGLAS. No. I will read it to you. This is the clause here:

The Government of Nicaragua hereby grants to the Government of the United States in perpetuity the right of ships of the merchant marine of the United States to engage in coastwise trade with Nicaragua, with a right to discharge or load in part or in whole at all Nicaraguan ports while engaged in any voyage on terms identical with those which may be imposed from time to time on Nicaraguan citizens or vessels.

Senator WILLIAMS. That is a new feature, Mr. Secretary, that was not in the other treaty?

Secretary BRYAN. It was in the former one.

Senator WILLIAMS. It was in the Knox-Castrillo treaty?

Secretary BRYAN. But we have taken out here, on recent consideration, a provision or a sentence by which they agree not to grant this to other countries. The Republic would not ask for anything that they could not grant to the other countries, and this, if it were objectionable, could be left out. I think it would be of some advantage to our ships. The Government of Nicaragua does not insist on that—.

Mr. DOUGLAS. Yes; and Nicaragua would really prefer that to be left out. As a matter of fact we found it in the old treaty—the Knox-Castrillo treaty—and the administration preferred not to strike it out and we left it in.

Now, up to this time we have a treaty that proposes to grant for 99 years, renewable for a like period, the right to build the canal; secondly, a lease for a like period, with the privilege of a like renewal for 99 years, for the two islands on the east coast—Little Corn and Great Corn Islands—and then the right to build a naval base in Fonseca Bay. The statement was made on yesterday by some member of the committee that he had been informed that Fonseca Bay was too shallow to be of any practical use in building a naval base. I made some inquiry this morning of both the minister of finance of Nicaragua and the Nicaraguan minister general, Chaimorro, about that and they showed me on the map, which you gentlemen will find by examination of it, that the Gulf of Fonseca is a large body of water extending into and indenting the coasts of Salvador and Honduras and Nicaragua—Salvador directly north of Honduras to the northeast and Nicaragua to the south. It forms quite a distinct and sharp bay on the Nicaraguan coast, indenting the coast very much like an “S.” I am assured by those gentlemen who ought to know, and who are intelligent and reliable men, that while the waters of the gulf or bay are shallow, as they indent the coast of Honduras and Salvador, especially Salvador, the water is very deep all through and along the territory of the gulf that belongs to Nicaragua.

Senator WILLIAMS. What is the character of the coast—precipitous?

Mr. DOUGLAS. I do not know. I do not know that it is especially.

Secretary BRYAN. I think there is one rather large hill on the Nicaraguan coast.

Senator POMERENE. May I ask you, Mr. Douglas, if you have the report of any engineer on the question of the depth of that water?

Mr. DOUGLAS. I do not know, but I assume that was done when the Congress of the United States was so seriously contemplating—

Senator POMERENE. The information which was given to me by this engineer was directly contrary to what you have stated here.

Mr. DOUGLAS. I know nothing about it personally.

Senator POMERENE. I know nothing about it personally except as it was told me. The statement was made that it was very deep on the Honduras and Salvador side, and very shallow on the Nicaraguan side.

Mr. DOUGLAS. I would imagine, from a most casual examination of the map, that the presumption would be the other way because there are little hilly inslands—groups of islands—all along the coast of Honduras and Salvador while there is no island at all on the coast of Nicaragua.

Senator HITCHCOCK. I would suggest that we can get this information from the Navy Department.

Secretary BRYAN. Yes; it can be procured. I will furnish that.

Mr. DOUGLAS. I myself do not know anything about it. I simply took pains to ask Gen. Chaimorro this morning—who has been for a long time a resident of Nicaragua. At any rate, this is what Nicaragua proposes to grant to the United States, and for the sum of \$3,000,000; that was the sum fixed by the Taft-Knox administration, and it was in connection with a number of other considerations and was part and parcel of a scheme for the loan of \$15,000,000, all of which fell through, and I am assured that the people of Nicaragua feel that to grant this right to these islands, and this naval base on the gulf, and the perpetual right to build the canal, is worth very much more than \$3,000,000. It is practically the real chief valuable asset of Nicaragua. But nevertheless, Nicaragua is willing for this treaty to be ratified and on the basis of the \$3,000,000 price, the fund to be used by way of reduction of the present indebtedness of Nicaragua.

I take it that the principal articles that I should discuss, or say something about, are articles 4, 5, and 6. The fourth article is short. I will state in this connection that Mr. Lansing, the counsel of the State Department, on the instructions of Mr. Bryan, took up with him the construction of this treaty, and I think it is very much improved over the treaty that was submitted this time last year. Article 4 reads as follows:

The Government of Nicaragua shall never without the consent of the United States enter into any treaty or other compact with any other foreign power or powers which will impair or tend to impair the independence of Nicaragua or the rights hereby granted to the United States, nor in any manner authorize or permit any foreign power or powers to obtain by colonization or for military or naval purposes, or for any purpose whatsoever, lodgment in or control over any portion of the territory of the Republic of Nicaragua or any control over its Government.

Article 5 reads as follows:

The Government of Nicaragua shall not contract or assume any public debt, to pay the interest upon which and to make provision for a reasonable sinking fund for the ultimate discharge of which the ordinary revenues of the Republic of Nicaragua, after defraying the current expenses of Government, shall be inadequate.

Now, my recollection is that the only change in that, as we copied it from the Platt amendment, was the insertion of the word "constitutional" before the word "Government" on the fourth line. The

Platt amendment read "the maintenance of a government adequate to protect the life, property, and individual liberty" and the word "constitutional" has been inserted. After the word "liberty" we have inserted, "and the free right of suffrage," which words were not in the Platt amendment.

Senator WILLIAMS. What does that mean? Does that bind this country to universal suffrage?

Mr. DOUGLAS. It binds this country, as I understand it——

Senator WILLIAMS. I do not mean this country, I mean Nicaragua. What does "free suffrage" mean? Universal suffrage?

Mr. DOUGLAS. I am free to say that I do not know how that would be construed. I would take it that it means they must observe the impartiality, and force with impartiality, the right of suffrage, the right of suffrage, whatever it may happen to be, in Nicaragua.

Senator WILLIAMS. There is about 75 per cent of the population that it would not touch at all.

Senator SUTHERLAND. It does not mean that——

Mr. DOUGLAS. I think it means to enforce with rigidity and impartiality and fairness whatever may be the suffrage law of the land to the end that revolution could not be brought forward to destroy the right of the people to exercise their participation in the affairs of government.

Senator WILLIAMS. If that is what it means it ought to say "subject to the suffrage laws of Nicaragua."

Mr. DOUGLAS. This treaty has been brought here in a most informal fashion, to be criticised and changed as you gentlemen may think proper.

Senator SUTHERLAND. It occurs to me that what you mean by that is, that wherever the right of suffrage has been granted that the right to exercise that should be insured or guaranteed, and I think you would make it more clear if you would have that read, "and the exercise of the free right of suffrage."

Secretary BRYAN. There would be no objection to making any change of that character.

Mr. DOUGLAS. That is what it means.

Senator HITCHCOCK. Has Nicaragua a constitution?

Mr. DOUGLAS. Yes, sir.

Senator HITCHCOCK. Why not say "the right of suffrage under the constitution of Nicaragua?"

Mr. DOUGLAS. I see no objection to that at all.

I desire to call your special attention to articles 4, 5, and 6. Article 4, as I remember it, was in the Knox-Castrillo treaty, but whether it was or was not, it is consonant with and in harmony with the Platt amendment provision, as is also article 5.

I want to discuss these three articles together and to discuss them very briefly. Nicaragua has requested through its President, through the President of the United States, the insertion in this treaty of the Platt amendment. It was not in the Knox-Castrillo treaty at all. There was a contemporaneous agreement between the bankers and Nicaragua that went side by side with the treaty—whether or not it was legally a part of it, but, as a matter of fact, part of it provided for the placing of a loan of \$15,000,000 to rehabilitate Nicaragua financially, and it embodied the rather ambitious scheme of changing the whole system of finances of Nicaragua.

Senator WILLIAMS. Just one word before you go on. I remember that the old treaty, as submitted to us before, had a provision saving the right of Nicaragua to federate with the other Central American Republics at any time. Is that saved in this?

Mr. DOUGLAS. No.

Senator SMITH of Michigan. That is not saved?

Secretary BRYAN. There is no objection to putting it in.

Senator SMITH of Michigan. In fact, if they maintain their present government, federation with other Central American States would be impossible. In its present form it is purely an entity of its own. When we put the Platt amendment over Cuba, we put it over an island that had no contiguous States adjoining it, but if we put it over Nicaragua we put it over a State with contiguous States ambitious for a confederation. I think the present provision will of necessity maintain the present form of government.

Secretary BRYAN. Let me say just a word. This Platt amendment was suggested by Senator Bacon when we talked with him about the possibility of doing something that would give stability down there and prevent these revolutions. He said he would be willing to go as far as the Platt amendment, and I submitted the amendment to the President and he expressed himself as satisfied, and this suggestion of the Platt amendment really comes from Senator Bacon. I mentioned that to the committee, I think, last year.

Senator WILLIAMS. I expect he spoke historically. He seems afterwards to have changed his mind. He expressed the fear that it might involve entanglements down there.

Mr. DOUGLAS. There would be no objection on the part of Nicaragua to a saving clause, saving to Nicaragua the right to any confederation with other Central American States.

Senator SMITH of Michigan. But not in any manner interfering with the debt of Nicaragua, I suppose?

Mr. DOUGLAS. Yes, sir; of course, that would have to be in some way cared for. I want to make the position of Nicaragua perfectly clear with reference to clauses 4, 5, and 6, and I trust I can make it so clear that there will be no doubt about it in the minds of the members of this committee. As the Secretary has stated, the suggestion really was made originally by Senator Bacon and was brought to my attention as counsel for Nicaragua at the time, and the matter was at once taken up with the Nicaraguan authorities at home and here.

Secretary BRYAN. But as a substitute for previous phraseology that was objectionable?

Mr. DOUGLAS. Yes, sir; very objectionable to the administration.

Secretary BRYAN. I know; but the original request, as I understand it, for this came from Nicaragua, just as the request with reference to this Platt amendment came from Nicaragua. It is not asked by us. They want it.

Mr. DOUGLAS. I am going to make clear Nicaragua's position about this matter. The question was asked yesterday by some member of the committee if Nicaragua meant by this to confess that she is unable to maintain order and government herself. My answer to that is no; that Nicaragua feels that she will be very much strengthened if she can have the moral support of so powerful a nation as the United States, and she feels it will furnish for her the ounce of prevention instead of the pound of cure for the chronic disposition to

Platt amendment

start and prosecute rebellion there. She rather feels that it would be a great inducement for the investment of American capital in Nicaragua if that kind of safeguard can be given to investments and to immigration, I might add. She feels that such a provision as that would, as if by magic, rehabilitate her finances and rehabilitate her industrially. She feels there would be a degree of confidence given not only to American investments but to investments from all quarters of the globe if we had in the treaty a provision that would enable the United States, in emergencies, to protect the life, liberty, and property there. Nicaragua has watched with interest the results of the operations of the treaty between the United States and Cuba. Nicaragua feels that has been no sort of injury to Cuba; that Cuba has not had her dignity impaired by it, but, on the contrary, has brought about a degree of prosperity there that they never knew before, and Nicaragua wants to share it. Nicaragua wants the United States to put her protecting arm about it and around her. She does not want her sovereignty destroyed and is willing to trust the disinterestedness, good faith, and effectiveness and power of the United States, which the Nicaraguan people believe will be all for good and none for evil.

Senator POMERENE. May I ask in that connection what means you have of knowing whether or not what you have stated is the prevailing opinion among the representative people in that country? As we understand things down there, there may be a party in control of the Government one month or one year, and as we understand it may only be a temporary matter; the party in power may have one view and the party temporarily out of power may have another view.

Mr. DOUGLAS. Of course, Senator, that is true. That is the situation here as well as it is there. I will say this much, that the Congress of Nicaragua is composed of nearly three-fourths of the members of the political party over which President Diaz presides, and of course you will find in Nicaragua a great many people who would be opposed to the Platt amendment. I think it would be almost unthinkable that we should find any other condition than some divergence or difference of opinion among the Nicaraguan people. I do know that the Congress of Nicaragua is composed of three-fourths of the same political persuasion as Gen. Chamorro and Mr. Cuadra, the minister of finance, who has been here nearly a year. I will say—and it is an historical fact—that the Nicaraguan people overthrew the dictatorship of Zelaya. I know that will happen to any country on this side or the other side of the Atlantic that has ever had such a monster incarnate as was Zelaya. Zelaya observed no law, he observed no precedent, and observed the rights of no man and no woman. The record of his persecutions there simply makes us all stand aghast when we read them. I happen to know as an historical fact that the wife of Gen. Chamorro, the present minister of Nicaragua, was chained to the body of some common individual, with weights upon her limbs, and taken through the streets of Managua as if she were the commonest of women, and locked up and imprisoned for days and days in a cell, with chains and weights tied to her limbs and then shipped to Panama without any notification to her people or anybody else while Gen. Chamorro was in command of the armies of the revolution.

I do know that the present minister from Nicaragua to the United States—who has been in constant conference with the Secretary of State and with myself as counsel—was at the head of the army and brought about the pacification of Nicaragua by the overthrow of Zelaya. Now, whether there be anybody in sympathy with Zelaya I could not state; and as there are no two political parties there to agree about it, of course it is to be assumed; but I am speaking for the organization, for the Government of Nicaragua as at present constituted, with every assurance that the present Nicaraguan Government speaks for the sentiment of the present people of Nicaragua.

Senator HITCHCOCK. Will you allow me to ask a few questions about Nicaragua? What is its population?

Mr. DOUGLAS. I am sorry to say that I do not know. I think it is about 3,000,000, though.

Senator HITCHCOCK. What is the indebtedness?

Mr. DOUGLAS. The indebtedness is about \$10,000,000—between \$10,000,000 and \$12,000,000.

Senator HITCHCOCK. What is this mixed commission which is now passing upon claims?

Mr. DOUGLAS. The mixed commission was organized and provided for by the Knox-Castrillo treaty, and, while the treaty was never itself ratified by the Senate, curiously enough a number of its provisions went into operation, and in some kind of way a mixed claims commission was appointed, composed of two Americans and one citizen of Nicaragua, and that commission has jurisdiction alone of the claims of citizens of the United States and citizens of Nicaragua growing out of the Zelaya-Chamorro-Diaz revolution.

Senator HITCHCOCK. Who appoints the Americans?

Mr. DOUGLAS. They were appointed by the President of Nicaragua, on the nomination of the Washington Government. They were suggested by Secretary Knox.

Senator HITCHCOCK. Why are they paid such large salaries?

Mr. DOUGLAS. I know that Nicaragua would like to know herself, because Nicaragua has groaned under that burden—

Senator HITCHCOCK. I understand that one member receives \$12,000 gold a year—

Mr. DOUGLAS. \$10,000.

Senator HITCHCOCK. Two members receive \$10,000 each, making \$20,000 for the two, and there is a secretary at \$5,000, with four clerks at \$4,800, or a total cost for that commission, which the Nicaraguan people must pay, of \$41,800.

Senator SMITH of Michigan. A year.

Senator HITCHCOCK. Which seems an exorbitant and outrageous figure to me, considering that the country is poor.

Mr. DOUGLAS. I am entirely in accord with you.

Senator HITCHCOCK. Then why is it that a collector of customs receives \$10,000 a year gold, and an auditor \$6,000, and four clerks at \$3,000 each, for the collection of customs which are supposed to be under American protection? I want to know who is responsible for that waste of money of a poor people?

Mr. DOUGLAS. I will answer you first negatively and then positively. The present administration of Nicaragua—that is, the Government of Nicaragua—is not responsible for any part of it, and I will

answer you, in the second place, that the minister here who is now seeking to negotiate this treaty, is not responsible for any part of it, and I will answer in the next place that the Washington Government, acting through the Secretary of State, criticised it roundly and severely at almost the first conference we had on the subject. I know that Mr. Cuadra, who is the minister of finance—

Senator SMITH of Michigan. Is he the present minister?

Mr. DOUGLAS. Yes, sir—and, by the way, I would like very much if he and Gen. Chamorro could be invited to make a statement about this matter before this committee; I think it can not help but enlighten the committee for you gentlemen to see what manner of men they are and to ask them just such questions as these. But I will state this much, Senator, that not only am I entirely in accord with the criticism suggested by your question, but the present Government of Nicaragua is simply groaning under the weight of it; so much so that there is so much hostility to the commission itself that the Secretary of State, to my personal knowledge, has done all he could to abate the feeling that these claims had to be adjusted by somebody, and I remember having suggested to Mr. Bryan that this commission be required to end its work in six months. That was in response to a statement by him that he would end this work within three or four months. I suppose the Government of Nicaragua could cut down the salaries, but it does not feel justified in doing so in view of the fact that that commission was not one appointed under the auspices of this Government, but practically at its dictation.

Senator SUTHERLAND. Who fixes the salaries?

Mr. DOUGLAS. I think it must have been done by the Secretary of State at that time—I would assume by Secretary Knox and Mr. Castrillo, the then minister to the United States from Nicaragua. But we found that to be the condition of affairs when we came on the scene—and I have represented Nicaragua for a little over a year—and we found that treaty in that shape, and while the treaty was never ratified, Mr. Ham was appointed collector with the assent of the State Department; I think nominated by the State Department. I know nothing about the history of his salary. We have frequently, Mr. Cuadra and I, criticized all the salaries to the bankers of New York and we made every effort we deemed proper in view of the delicate and unsatisfactory condition that Nicaragua was in, to have the salaries reduced.

Senator HITCHCOCK. Why did you criticize it to the bankers?

Mr. DOUGLAS. Because Ham was nominated and put there really by the bankers with the assent of the Secretary of State.

Senator HITCHCOCK. Then, do the bankers control the civil affairs in Nicaragua at the present time, and are they responsible for this plunder of the poor people?

Mr. DOUGLAS. Do you mean the bankers?

Senator HITCHCOCK. Yes; Seligman and Brown Bros.

Mr. DOUGLAS. I think I ought to make as clear a statement as I can with reference to that—

Senator WILLIAMS. Just one moment before you go into that. Was the Senate of the United States consulted, and did it ever approve this plan of putting an American in charge of the customs down there, and two Americans in charge of this commission?

Mr. DOUGLAS. So far as I know, no. There is no record of any official action by the Senate. I do not know whether the then Secretary of State consulted informally with the Foreign Relations Committee of the Senate, or with whom he consulted, if anybody.

Senator POMERENE. Was there any treaty authorizing these appointments?

Mr. DOUGLAS. What is known as the Knox-Castrillo convention provided for the mixed claims commission, and what is known as the debt or loan contract provided for the collector of customs to be an American, to be nominated by the lenders of the money, and approved by the then Secretary of State.

Senator WILLIAMS. Is that provided for in the Knox-Castrillo treaty?

Mr. DOUGLAS. No. I think it would be very well for the members of the committee to have that treaty. If they have not got it I think I can get you copies of the Knox-Castrillo treaty, the old original, showing what was meant by this agreement, which really was an agreement for a loan of \$15,000,000.

Senator SMITH of Michigan. It was an agreement that provided for the administration of the affairs in the manner described by Mr. Douglas, and the agreement was supposed to be ratified by the treaty.

Mr. DOUGLAS. The agreement, Senator, was not to be ratified by the treaty but it was to follow.

Senator SMITH of Michigan. I mean the treaty acknowledged the agreement.

Mr. DOUGLAS. That was the scheme.

Senator WILLIAMS. The agreement was really entered into after the treaty.

Mr. DOUGLAS. I think they were practically contemporaneous in point of time.

The CHAIRMAN. You say you have those documents?

Mr. DOUGLAS. I can furnish you copies. I know I have one set and I can get you several sets.

Senator WILLIAMS. If it was a treaty of the United States——

Mr. DOUGLAS. It was not a treaty.

The CHAIRMAN. Was the Knox-Castrillo treaty ever ratified? —

Mr. DOUGLAS. No, sir.

Senator WILLIAMS. Then it was not a treaty at all?

Mr. DOUGLAS. No, sir.

Senator HITCHCOCK. If the Government of the United States criticised this thing, and was antagonistic to it, why can not it be abolished right off, amended, or changed?

Mr. DOUGLAS. You mean as to salaries?

Senator HITCHCOCK. Yes.

Mr. DOUGLAS. Possibly there could be some reduction in salaries. These gentlemen—I think I speak their views for them—have simply been hesitant to do anything that might look like repudiating what had theretofore been understood.

Senator HITCHCOCK. How long have they been in existence as a commission?

Mr. DOUGLAS. I judge about two years.

Senator HITCHCOCK. How many claims have they passed upon?

Mr. DOUGLAS. They have passed upon about half of the claims. Secretary Bryan, you will know about that?

Secretary BRYAN. My recollection is that there were 6,000 claims and that they have passed upon about 3,000.

Senator HITCHCOCK. What has been allowed?

Mr. DOUGLAS. Between \$250,000 and \$300,000.

Secretary BRYAN. The claims passed upon were quite small as a rule. I will not attempt to give the exact amount but my recollection is that it was less than half a million dollars, if I am not mistaken.

Senator HITCHCOCK. That cost has been \$80,000 to the people of Nicaragua.

Senator WILLIAMS. There were a total of \$10,000,000 of claims pending.

Mr. DOUGLAS. No; about \$5,000,000.

Secretary BRYAN. The reduction has been very material in the amount of the claims; that is, the claims allowed have not been for anything like the claims presented.

Senator SMITH of Michigan. The salaries of the American officials now conducting the affairs of Nicaragua aggregate between \$100,000 and \$150,000 a year. I think the latter figure is nearer correct than the first.

Mr. DOUGLAS. You refer to the collection of customs?

Senator SMITH of Michigan. I refer to the administration of the Nicaraguan affairs through the banking houses, and with the American acquiescence, amounts to nearly \$150,000 a year.

Mr. DOUGLAS. Of course, I can get those figures for the committee over the signature of the minister of finance. I think you should have them. I am quite sure they do not reach that figure.

The CHAIRMAN. I would like to ask the Senator from Michigan, to the end that Judge Douglas may give us any information he has, what Americans are acting officially in Nicaragua whose salaries amount to the sum that you have indicated—in what line of service?

Senator SMITH of Michigan. The claims commission, the collectors of customs and the American employees throughout the Republic.

Senator HITCHCOCK. I will state for the benefit of the chairman that some one who had been down there gave me this morning—in addition to the mixed claims commission of which I have read—a statement that these Americans were employed under the general collector, at \$10,000: One auditor, at \$6,000, and four clerks, at \$12,000, and the following collectors whose salaries were not stated: A collector at Bluefields, a collector at San Juan del Seuer, a collector at Cabo de Gracia, a collector at San Juan del Norte, a collector at Corinto, a manager of the railroad at \$10,000, an auditor at a high salary, and a number of clerks, and he also said that the Americans were employed in the National Bank of Nicaragua.

Mr. DOUGLAS. I think I can throw some general light on the situation to save your time. In the first place, let me state that if the committee wishes it I will have prepared in the next two days a statement giving the list of the American employees and in what capacity employed, and as nearly as possible an accurate statement of their salaries. I do not think that the salary list can amount to \$150,000, and even if it does, while the present administration of Nicaragua has no real responsibility for it and the present administration at Wash-

ington has no responsibility for it, I think it is only just to say that a great many of those salaries are not properly chargeable to any loss account on the part of Nicaragua. Nicaragua has to have a collector general of customs, whether you call him by that name or whether you give an American name for it. The fact is that no better man could be selected than the man who is down there now, Col. Ham, who lives, I think, in Iowa. As I said before, he was appointed under some arrangement on the part of the bankers of Nicaragua and the then Secretary of State. He is a most efficient officer and he has eliminated graft from the operations of the customs offices there and has corrected about as much tendency to rebellion, by the way, as any other one thing that has been done in Nicaragua. There has been an elimination of graft in the customs offices. The people had been accustomed to recognize it and participate in it for a number of years, and it created quite a jolt when it was stopped. One thing is that the receipts from customs under the Ham administration may be a coincidence, but the fact is that they are more than doubled as compared with what they were before the Ham administration two and one-half years ago.

Senator SUTHERLAND. What do they amount to?

Mr. DOUGLAS. About \$150,000 a month. If they could get rid of the constant menace of revolution, Nicaragua would go up in leaps and bounds, and if Nicaragua was in the condition that it ought to be, if we could induce you gentlemen to accept the Platt amendment here, you would find the collection of customs in one year more than double that, and in five years it would be at least \$500,000 a month.

Senator SMITH of Michigan. How much do the bankers allow to the Government of Nicaragua out of its customs revenues for the expenses of the Government?

Mr. DOUGLAS. All.

Senator SMITH of Michigan. No; they deduct the fixed charges and the interest charges, and I think they do not allow but \$25,000 a year.

Mr. DOUGLAS. I should state that until I became counsel for Nicaragua I was not personally acquainted with a single member of the house of Brown Bros. or Seligman & Co. I came in contact with them through their counsel, of New York.

Senator SMITH of Michigan. Did you represent them at any time in the State Department?

Mr. DOUGLAS. Brown Bros.? Not at all, anywhere, in court or out of court. I have had no professional relations with them except to be on the other side of the table as representing the Republic of Nicaragua. You asked me some questions about Brown Bros. a moment ago, as to what they allowed these people. When I became counsel for Nicaragua I found that the bankers had not made the \$15,000,000 loan; that they only had the option to make that loan under the Knox-Castrillo arrangement. They concluded they would not make the loan, and they had made a temporary loan of about \$3,000,000. They had then reduced this to about seven hundred and odd thousand dollars and the collector of customs, Ham, was then installed and operating the customhouses and paying over the money on account of the debt, and in that way it was reduced and Nicaragua was enabled to pay this seven hundred and odd thousand dollars. It fell in the month of October of last year, 1913, and I took

* up the negotiations of another loan with Brown Bros. I negotiated a loan for \$1,000,000 and sold them 51 per cent of the railroad—

Senator SMITH of Michigan. For how much?

Mr. DOUGLAS. For \$1,000,000, and 51 per cent of the National Bank of Nicaragua which had been installed out of the old—

Senator SMITH of Michigan. How much did they get for that?

Mr. DOUGLAS. They got par for the stock.

Senator SMITH of Michigan. How much in the aggregate?

Mr. DOUGLAS. About \$250,000. As a matter of fact, they increased the capital stock of the national bank to \$500,000, and Nicaragua took 49 per cent of the increase and the bankers took 51 per cent of the increase. I should state in that connection—as it is my duty to make it clear—that that railroad was worth more than \$1,000,000—

✎ Senator SMITH of Michigan. Is it not a fact that it was appraised at \$4,000,000?

Mr. DOUGLAS. Not that I know of. By whom?

Mr. SMITH of Michigan. By the engineers.

Mr. DOUGLAS. I do not know that that is true.

✎ Senator SMITH of Michigan. Of the \$1,000,000 that you got for them last, which matures this coming October, Nicaragua put 49 per cent of the railroad stock in as security for that loan, did she not?

Mr. DOUGLAS. Yes, sir; as well as a pledge of the customs receipts.

Senator SMITH of Michigan. On that loan there has been a small payment during the year of \$250,000, has there not?

Mr. DOUGLAS. No, sir; there has been no payment.

Senator SMITH of Michigan. Is the full loan running \$1,000,000?

Mr. DOUGLAS. Yes, sir.

Senator SMITH of Michigan. For which you hypothecated 49 per cent of the railroad stock of Nicaragua?

Mr. DOUGLAS. Yes, sir.

Senator SMITH of Michigan. They, the bankers, having 51 per cent. Am I right about that?

Mr. DOUGLAS. Yes, sir; but I think it would be, perhaps, clearer to let me state the facts exactly as they are, and if you care I will leave with the committee my personal contract with the company, which gives it with absolute accuracy. First, let me dispose of the option. The bankers had an option of 51 per cent of the railroad and 51 per cent of the bank—a binding option from which there could have been no escape except by positive repudiation. That was the situation when I became professionally connected with Nicaragua. When the matter was brought to Mr. Bryan's attention, he absolutely opposed permitting the banks to avail themselves of this option. We had a number of conferences and conversations on the subject. I told Mr. Bryan I would look up the question as to whether or not Nicaragua could escape the liability. I did very carefully, and came to the conclusion that she could not escape it except by a simple, unadulterated repudiation. The option was just as binding as any provision in a contract could be, both as to the railroad and as to the bank.

Senator HITCHCOCK. Was it for the whole of the railroad?

Mr. DOUGLAS. No; 51 per cent.

Senator HITCHCOCK. How much of the bank?

Mr. DOUGLAS. Fifty-one per cent of the bank. The bank had been established under that system of changing the currency, such as the American system, taking in the old currency and canceling it and destroying it and issuing new currency based upon a proposition of redemption in gold.

Senator HITCHCOCK. Was it not an improvident contract for the country to make?

Mr. DOUGLAS. That is, as to this railroad?

Senator HITCHCOCK. Yes.

Mr. DOUGLAS. I do not think so. I did not think so at the time, and I so stated to Mr. Bryan, and I stated it to these gentlemen and they thought so, too.

The CHAIRMAN. Did you sell the bank stock and the railroad stock to these bankers?

Mr. DOUGLAS. I did not sell it. They availed themselves of the option. They took it. I advised my clients to let them have it, first, because we could not help it, and secondly, because it was a good thing for them to do. +

The CHAIRMAN. The bank was capitalized at \$500,000?

Mr. DOUGLAS. The bank was then capitalized at \$300,000 and increased to \$500,000.

The CHAIRMAN. At the time of the payment by the bankers?

Mr. DOUGLAS. Yes, sir.

The CHAIRMAN. They took 51 per cent of the \$500,000? —

Mr. DOUGLAS. Yes, sir.

The CHAIRMAN. At par?

Mr. DOUGLAS. Yes, sir; and we took 49 per cent.

The CHAIRMAN. Where does this railroad run; what are the termini?

Mr. DOUGLAS. It runs from Corinto on the Pacific coast directly across the country to the Great Lake of Nicaragua, to Managua, and down to Granada. That is on the lake. Managua is not on the lake itself. I believe it is on the little lake of Nicaragua. The railroad runs almost diagonally from northeast to southwest. }

The CHAIRMAN. What is the distance?

Mr. DOUGLAS. About 170 or 180 miles.

Senator SMITH of Michigan. It is 129 miles, isn't it?

Mr. DOUGLAS. It is something like that. It runs across from Nandaimo to Managua and Granada, and is on the Great Lake.

The CHAIRMAN. That road belongs to the Government?

Mr. DOUGLAS. To the Government of Nicaragua.

Senator HITCHCOCK. What was the price at which the New York bankers got their 51 per cent of the railroad?

Mr. DOUGLAS. On the basis of \$2,000,000 valuation.

Senator HITCHCOCK. For the whole thing?

Mr. DOUGLAS. Yes, sir; they paid \$1,000,000 for 51 per cent. *

Senator HITCHCOCK. Was it bonded in addition?

Mr. DOUGLAS. No, sir; there were no bonds on it at all. I think I can enlighten the committee a little bit on that. In the first place, you will see by examination of the contract that there was no other thing for Nicaragua to do except to go forward and to go the straight and narrow path and carry out her obligations or take the broad road to destruction and repudiate it. I advised Nicaragua that she was in honor bound, and in law bound to carry out that contract, and in

looking into the treaty and in consultation by cable and letter with the President and with Gen. Chamorro and Mr. Cuadra here, who I think are sensible men—

Senator WILLIAMS. You mean the President of Nicaragua?

Mr. DOUGLAS. The President of Nicaragua—that I thought it was a good day's work for Nicaragua to sell that railroad for 51 per cent. It was just about as cheap a proposition, and just about as poor railroad from the description I have received of it, as it could have been. I will state furthermore—let us reckon 12 months from this date back. Nicaragua had no control of, I will say 75 if not 95 per cent of the rights of way over which that railroad has been built; it just simply built it without regard to written statutes, without condemnation or acquisition of right of way, or anything of that sort. I will say furthermore that at the time Nicaragua owned and operated it, it was permeated or saturated with graft until almost every other man was enabled to get a pass on the railroad and ride free, or have his goods carried free until the railroad was simply a pack horse.

Senator SMITH of Michigan. It is a paying investment now, is it not?

Mr. DOUGLAS. Yes, sir. It pays 12 or 14 per cent on the investment.

Senator HITCHCOCK. Who made that contract of sale to the bankers?

Mr. DOUGLAS. The contract was made by the then administration. Castrillo was minister of Nicaragua.

Senator HITCHCOCK. That was Zelaya's administration?

Mr. DOUGLAS. No, that was, I think, in the early days of the Diaz administration.

Senator SMITH of Michigan. It was the present administration?

Mr. DOUGLAS. Yes. The President of Nicaragua but not the United States.

Senator SUTHERLAND. Was it paying any income prior to the transfer to these bankers?

Mr. DOUGLAS. During that period of time the railroad was under the control of the bankers, and they had the right to it by improving the road. They have built passenger coaches and freight cars and bought locomotives and practically rebuilt the road, the tracks, etc., spending some \$200,000 or \$300,000 upon the railroad in that way.

Senator HITCHCOCK. When they had control of it as creditors?

Mr. DOUGLAS. When they were operating it for the benefit of the people of Nicaragua, presumably.

Senator HITCHCOCK. Who were operating it?

Mr. DOUGLAS. The bankers.

Senator HITCHCOCK. How would they get control?

Mr. DOUGLAS. Under the terms of that old contract.

Senator HITCHCOCK. The contract of purchase?

Mr. DOUGLAS. Yes; the railroad was pledged as security for the debt.

Senator HITCHCOCK. They were using the income of the railroad to make these improvements?

Mr. DOUGLAS. Yes, sir; they were.

Senator HITCHCOCK. You say they bought it at \$2,000,000. What was its cost?

Mr. DOUGLAS. I do not know what it costs was. That was two years ago.

Senator SHIVELY. It is 129 miles of railroad.

Senator HITCHCOCK. I think that is only about \$15,000 a mile of purchase.

Mr. DOUGLAS. I am sorry I can not answer you any more satisfactorily. My first answer is that Nicaragua was bound by her contract to sell that railroad. My second answer is it was of no real benefit, no substantial benefit, to Nicaragua as it was at that time; it was left unoperated, and it is the only road in Nicaragua.

Senator HITCHCOCK. Let me interrupt you. You say there was graft in the operation of the railroad?

Mr. DOUGLAS. That is my information.

Senator HITCHCOCK. Does it not look a little suspicious when a company of American bankers go down and buy a railroad of that kind at far below its cost and value?

Mr. DOUGLAS. I am not at all ready to admit that that railroad was bought at far below its value. I do not believe it was worth even approximately \$2,000,000 when the operation was taken over.

Senator SMITH of Michigan. You say it now pays 14 per cent?

Mr. DOUGLAS. I said from 10 to 12 per cent.

Senator SMITH of Michigan. I think it pays better than that.

Mr. DOUGLAS. I have a statement in my office that you are at liberty to examine if you do not care to take my statement—

Senator SMITH of Michigan. I am willing to take your statement with regard to it.

Senator HITCHCOCK. The manager of that railroad draws a salary of \$10,000 a year American gold?

Mr. DOUGLAS. Yes, sir; and he is a splendid manager, but about as untactful a man as could be placed in that position. There is constant friction between the Government and that railroad.

Senator HITCHCOCK. Is it not a fact that the Government of Nicaragua is one of the poorest people in Central America?

Mr. DOUGLAS. They are poor enough, I know.

Senator HITCHCOCK. I know that Secretary Knox came here and said that they hardly averaged a shirt to their backs. If the United States is to exercise a protectorate over that country, should not something be done to keep this valuable property from getting into the hands of a lot of bankers and also to prevent its people from being the subjects of extortion by this mixed commission drawing enormous salaries?

Secretary BRYAN. May I say a word there? As Mr. Douglas has stated, this contract giving the option was made prior to this administration.

Senator HITCHCOCK. I realize that.

Secretary BRYAN. And when they brought it to the State Department my objection to it was that an option given in connection with the loan might conceal a discount of premium, and I told them that I regarded that provision as an extortion and we would not give any assistance to Brown Bros. in the foreclosure of that claim, and the Nicaraguan Government understood it and finally the Nicaraguan Government came to the conclusion that they ought to carry out this option first, because, as Judge Douglas says, it was in the contract and they would have to repudiate it in order to get out of it;

and, secondly, that under the circumstances it was better to have that railroad owned as well as operated by a private company rather than by the Government. That did not appeal to me and I had nothing to do with the approval of this transfer of the road and of the stock to the bank. But when they came to a new loan, which I did have something to do with, I refused to approve of any putting up of an option and tried to prevent even the putting up of the stock as security, but they said they could not get this money which they had to have without putting up the stock as security, I then demanded the right to redeem them—

Mr. DOUGLAS. I will state what that is. I was going to come to that.

Senator WILLIAMS. Before you go into that, I understood you to say at the time the Government of Nicaragua was operating this railroad the politicians, who constituted the Government, were giving so many favors to the people they were transporting that the road was not being operated with any profit to the Government of Nicaragua. So that so far as its value to the Government of Nicaragua was concerned it was less, in your opinion, than what it was sold for.

Mr. DOUGLAS. I will answer you in this way: I think the 49 per cent reserved to the Government of Nicaragua, the road being controlled and operated by Americans, and I believe by honest Americans, too, and capable Americans, is worth more than 100 per cent would be worth if they had it all back to-day.

Senator WILLIAMS. Since it has been operated as it is, its profits have increased, have they not?

Mr. DOUGLAS. I think the profits have increased. Of course, before this time the profits were all used in building cars, but they have stopped that now.

Senator WILLIAMS. Do you know what the gross receipts, or I mean the net receipts, turned into the Government were before this time and what the net receipts turned in now are?

Mr. DOUGLAS. There were practically no receipts turned in to the Government before the Americans went down there. I do not know how it worked before the Americans went down there under the Knox-Castrillo arrangement, but I know during that arrangement there was no money turned in to the Government because it was all used for betterments, for building cars, and practically reconstructing the track.

Senator WILLIAMS. So it was bringing in no profits?

Mr. DOUGLAS. None at all. I think the closest scrutiny will reveal, and I am sure this committee will be satisfied, that not only did Nicaragua not act improvidently about it but she acted wisely in selling the railroad.

Senator SMITH of Michigan. I had the impression that they had no constitutional right to dispose of that property. Did you consider that phase of the question?

Mr. DOUGLAS. That question was not submitted to me, and I am not very familiar with the Constitution.

Senator SMITH of Michigan. You did not consider that phase of it in passing upon the bona fides of the contract?

Mr. DOUGLAS. I should not think that would affect the bona fides.

Senator SMITH of Michigan. That question did arise, as a matter of fact, that 45 per cent of the stock placed with the bankers has been earning dividends; 51 per cent——

Mr. DOUGLAS. Yes, sir.

Senator SMITH of Michigan. And the bankers applied the profit on that stock dividends for betterments of the property, have they not?

Mr. DOUGLAS. No, sir.

Senator SMITH of Michigan. Have they paid it over to the Government?

Mr. DOUGLAS. There have been no dividends paid as yet, but we have arranged now for the early payment of dividends on account.

Senator SMITH of Michigan. As a matter of fact, the profit has gone into the road?

Mr. DOUGLAS. No, sir.

Senator SHIVELY. From what fund have these betterments been made?

Mr. DOUGLAS. There have been no betterments in any legal sense or actual sense that I know of since making the new arrangements October 13, and, commencing with that period, the railroad was owned 51 per cent by the bankers and 49 per cent by the Government; but no money has been applied to betterments since that time. Prior to that time betterments were put in.

Senator SMITH of Michigan. Ties and new rails?

Mr. DOUGLAS. Yes. Of course ordinary upkeep has been looked after as by any railroad, but I use the term "betterment" in a larger and, it seems to me, more accurate sense. Now, about the 51 per cent of the railroad, I have said all I think I can say about it, but I do want to say something about the 49 per cent.

The bankers, when we negotiated a loan of \$500,000, asked that we renew the contract pledging the receipts of the customs to the payment of this debt and should pay the money on account of this debt. We satisfied them in the course of time the Government could not live that way, and they yielded the point and allowed the entire revenues of the customs, with the exception of a sinking fund for debt, to which I will call your attention in a moment, also to be turned over by the collector of customs to run the Government. Then they insisted they should have additional security in the shape of 49 per cent of the railroad and 49 per cent of the bank. Mr. Bryan insisted that the bank and railroad stock should be left out. I went back and forth to New York and did everything I could to have it left out and found a loan would have failed if we had stood by that position, and I got them to agree. Mr. Bryan then suggested there should be some redemption period; that a mortgagee, especially in the West, had a certain period of grace—four, five, or six months or a year—in which to redeem his land. I told Mr. Bryan I did not think we could accomplish anything along that line. I went and tried to get them to give a one, two, or three months redemption period after maturity before they could sell the stock, and he insisted and insisted until finally we got almost to the breaking point, but I made a final trip to New York with Mr. Bryan's ultimatum that if they did not allow us 6 or 12 months to redeem there would be no more support whatsoever to anything they would do down there, and they finally yielded; and therefore Nicaragua has a period of 12 months in which to redeem her railroad stock before they can sell it. Of course the collection of cus-

toms after October of this year would very rapidly pay off that debt. That bank stock and railroad stock is in no real danger, as I see it.

Secretary BRYAN. Under the old arrangement it would enable them to take that stock on a default at the price fixed—enable them to take that 51 per cent over; but under this new loan they put up the stock as security and have a time after the default of a year for redemption of it. At the end, if they fail to redeem, this stock must be sold at what it is then worth, not the fixed price as heretofore?

Mr. DOUGLAS. Yes, sir.

Secretary BRYAN. And I think the new arrangement is very much superior to the old one, and, as far as I know, the first time where any of those countries ever got a chance to redeem after a default.

Senator SMITH of Michigan. That is the final holding?

Mr. DOUGLAS. Yes.

Senator HITCHCOCK. What rate of interest do they pay on their loans?

Mr. DOUGLAS. I am glad you asked that—

Senator SMITH of Michigan. Before leaving that, when you say "they," do you refer to Brown Bros., when you mention going to New York?

Mr. DOUGLAS. Yes; I suppose I did; Brown Bros., and J. & W. Seligman & Co.; those two banking houses were the bankers we found in charge of the situation in the adjustment of May of last year.

Secretary BRYAN. Might I suggest there that we tried to get other bidders?

Mr. DOUGLAS. Yes; we tried all.

Secretary BRYAN. The Jarvis folks?

Mr. DOUGLAS. Jarvis went to—

Secretary BRYAN. The ones we used in competition with Brown Bros.?

Mr. DOUGLAS. Jarvis went to London. He was the man connected with the National Bank of Cuba; a man of some ability and some note.

The CHAIRMAN. A firm over there of Speyer & Co.?

Mr. DOUGLAS. No, sir.

Senator SMITH of Michigan. Just about the Jarvis matter. It was stated yesterday, I think, that the Jarvis company had failed to come across. As a matter of fact, do you know whether they failed to come across or whether they put up a certified check for a large amount as evidence of their good faith?

Mr. DOUGLAS. They said they would put up \$100,000, but we never saw the check.

Senator SMITH of Michigan. Who never saw it? You never saw it?

Mr. DOUGLAS. I never saw it, nor the minister of finance.

Secretary BRYAN. We never did.

Mr. DOUGLAS. I am satisfied they did not do it. The man with whom the negotiations were made and who signed a tentative agreement—I mean by a tentative agreement one subject to the approval of Gen. Diaz, I mean President Diaz—and I am frank to say I advised him not to approve that contract.

Secretary BRYAN. Where was it?

Mr. DOUGLAS. I found that contract in existence, that tentative form, when I returned from my vacation last summer, the 29th of

August, and I took it up the very next day, and notwithstanding the fact that I advised Diaz not to approve that contract and Cuadra not to advise its approval, Mr. Jarvis went to Europe and tried to negotiate this loan, and it is my information that he utterly failed.

Secretary BRYAN. I think you are mistaken about that.

Mr. DOUGLAS. It is very strange—

Secretary BRYAN. You state it in your own way. I do not want to take issue with you.

Mr. DOUGLAS. I have only stated what was brought to my attention. I can not state what was in the mind of some one. I know I was in almost daily contact with Mr. Cuadra, the minister of finance, and it is incomprehensible, if he ever informed Mr. Cuadra, that Mr. Cuadra would not tell me about it if he had this money, because of my advice.

Secretary BRYAN. Did you see Douglas C. Beer?

Mr. DOUGLAS. No, sir; I never saw him in my life.

Secretary BRYAN. Did you see anyone except Jarvis?

Mr. DOUGLAS. I never saw Jarvis in my life. Jarvis sailed for Europe within a few days after my return. I never saw or met him at all.

I was going to say this, and I might as well make it clear: It was on my advice that Mr. Cuadra went back to Brown Bros. & Seligman for the additional loan. I know in the first place the money the Nicaraguan Government then realized—

Senator SHIVELY. What amount was that?

Mr. DOUGLAS. About seven hundred and odd thousand.

Senator SHIVELY. When was that due?

Mr. DOUGLAS. About the first days of October, 1913.

Senator SHIVELY. That was \$750,000?

Mr. DOUGLAS. I think \$711,000 was the exact figure.

Senator SHIVELY. Then an additional loan was made at that time?

Mr. DOUGLAS. In October.

Senator SHIVELY. How much of an additional loan?

Mr. DOUGLAS. A million dollars, exclusive of the sale of the railroad.

Senator SHIVELY. So after that time the total indebtedness is \$750,000?

Mr. DOUGLAS. No, sir; \$700,000 was paid out of that \$1,000,000 loan.

Senator SMITH of Michigan. Paid back their first loan?

Mr. DOUGLAS. They got practically no money except the million out of the railroad.

Senator SMITH of Michigan. Their indebtedness was \$1,000,000 then?

Mr. DOUGLAS. \$700,000 due to the bankers at the maturity of that old Castro debt last October and October, 1911.

Senator SHIVELY. About the new loan.

Mr. DOUGLAS. The new loan was \$1,000,000 and we paid out of that \$711,000 that was due.

Senator SHIVELY. What is the interest charge on the million-dollar loan?

Mr. DOUGLAS. Straight 6 per cent.

Senator SMITH of Michigan. Who approved that interest charge? Was it approved by our Government?

Secretary BRYAN. Yes, sir; the State Department.

Senator SMITH of Michigan. You approved that?

Mr. DOUGLAS. By Diaz, commissioner of finance.

Secretary BRYAN. After I was satisfied it was the best that could be done it was approved.

Senator SMITH of Michigan. Had they paid as much as that in the past?

Mr. DOUGLAS. Not to Brown Bros. & Seligman Co. There was a great deal of dissatisfaction in the mind of the people down in Nicaragua with the debt of \$6,000,000 that was known as the Ethelburger debt.

Senator HITCHCOCK. That debt was largely excessive?

Mr. DOUGLAS. I have every reason to think that debt during the régime of Zelaya—

Senator HITCHCOCK. Did not their parliament find that a very small portion of that debt ever got in the actual treasury?

Mr. DOUGLAS. Probably that was true; probably they got 60 to 75 per cent.

The CHAIRMAN. Who got that?

Mr. DOUGLAS. People in Nicaragua.

Senator SMITH of Michigan. Seventy-five per cent of the \$6,500,000?

Mr. DOUGLAS. I think so; yes, sir.

The CHAIRMAN. Who got the 25 per cent?

Mr. DOUGLAS. I do not know.

Senator HITCHCOCK. Graft, was it not?

Mr. DOUGLAS. Graft. I think that answers it. Graft of the most unblushing character, but that debt was scattered. The Ethelburger debt only came into this situation in a collateral way. What I mean by a collateral way is that we found a subsisting obligation to set aside \$75,000 a month from the customs with which to create a sinking fund for the retirement of that debt, plus interest.

Senator HITCHCOCK. Is that being carried out?

Mr. DOUGLAS. That is being carried out. The only subsisting debt is being paid now out of the customs receipts.

The CHAIRMAN. I want to ask something which I do not have clear in my mind about the \$711,000 Nicaragua owed when you became connected with the business. Was that a remnant of this \$6,000,000 indebtedness?

Mr. DOUGLAS. No, sir; that has no relation to that at all, Senator. That is a remnant of the partial loan that Cuadra received for Nicaragua from Brown Bros. and Seligman Co. under the Castro agreements and proposed treaty made two or three years before that. That contemplated a loan of \$15,000,000 and that was advanced on account of it. Advancements on account of it carried with it the appointment of the collector of customs.

Nicaragua would not have suffered so seriously had the \$15,000,000 loan gone through, but all sense of proportion was lost in that she had all these things to do to pay and got no loan. The bankers were not bound to advance it. They had a provision giving them a right to take the bonds at \$95 or \$96, somewhere along there, but did not take them.

Senator SMITH of Michigan. They parted with their most valuable property when they parted with their railroad. They had nothing else to pledge?

Mr. DOUGLAS. They had their custom receipts to pledge.

Senator HITCHCOCK. Besides the \$1,000,000 they owed to Brown Bros. and Sligman and the \$6,000,000 still remaining on the old Ethelburger debt, are there not other debts?

Mr. DOUGLAS. Yes, sir.

Senator HITCHCOCK. What are they?

Mr. DOUGLAS. Well, we estimate that when the mixed claims commission finishes its work there will be probably a million and a half of dollars due. That is a guess. They have 6,000 claims; they have passed on about 3,500 and, as the Secretary says, they have largely passed on the smaller claims. I might say in passing that notwithstanding the very high salaries I think they are doing very excellent work.

Senator HITCHCOCK. Let us stick right to that. That is not a bonded debt. Is there any other bonded debt besides the bankers' debt and the old Ethelburger debt?

Mr. DOUGLAS. I think not.

Senator HITCHCOCK. Was that Ethelburger debt incurred to build the railroad.

Mr. DOUGLAS. I am sorry I can not answer you, but I do not think so.

Senator SMITH of Michigan. It was not.

The CHAIRMAN. You stated a moment ago, as I understood, that the indebtedness of Nicaragua at this time was between ten and twelve million dollars?

Mr. DOUGLAS. Yes, sir.

The CHAIRMAN. That indebtedness consists of \$1,000,000 due Brown Bros. and Seligman and \$6,000,000 of the former loan of which you spoke?

Mr. DOUGLAS. Yes, sir.

The CHAIRMAN. That makes seven and a half million dollars?

Mr. DOUGLAS. Yes, sir.

The CHAIRMAN. What is the other four or five million dollars?

Mr. DOUGLAS. If you will let me answer so that my answer will be of some value——

The CHAIRMAN. And how is it secured?

Mr. DOUGLAS. It is not secured at all. Let me answer you in this way, and if the stenographer will make a note of it I will send to the committee a copy of a letter written by the minister of finance to the Secretary of State two or three months ago in which he sets out details of how this debt reaches the sum of——

Senator SHIVELY. That is, the minister of finance of Nicaragua and the Secretary of State of the United States?

Mr. DOUGLAS. Yes, sir; that is on the supposition that it would be wise to bring this treaty to the attention of this committee to the end that whatever was to be done to Nicaragua would be done. For 12 months she has been in mid air, not knowing what was going to happen, and that letter points to that primary purpose.

The CHAIRMAN. Can you furnish this committee with a detailed statement showing what the indebtedness of that Republic is and to whom the several items of indebtedness are due and the interest borne and the securities supporting the indebtedness?

Mr. DOUGLAS. I should be very glad to do that, Senator. I think I can do that with accuracy, although of course we can not itemize

every item. For instance, several hundred thousand dollars is due to employees—there are even amounts due to school teachers.

Senator HITCHCOCK. Did you explain why it was that Nicaragua found it necessary to increase the indebtedness in New York from \$750,000 to a million, and I do not remember what?

Senator SMITH of Michigan. He said they got a little of it.

Mr. DOUGLAS. Let me answer you this way, Senator: In the first place the million dollars was only a drop in the bucket of what Nicaragua needed. She had to have some money; she did not have any money whatever. You see, the loan was maturing in the early days of October, 1913, on the \$750,000, and there was a lien on the customs receipts for the collection of that money, and if the bankers had enforced their rights under the contract, they could have continued to hold all the customhouse offices and all of the receipts, including the receipts from the internal revenue.

Senator SMITH of Michigan. Which bankers do you speak of?

Mr. DOUGLAS. Brown Bros. and Seligman Co. are the only bankers I know of in connection with the Nicaraguan affair.

Senator SMITH of Michigan. Why was it not sufficient to renew the loan with them for \$750,000? Why increase it to \$1,000,000?

Mr. DOUGLAS. Because they needed the money very badly.

Senator SMITH of Michigan. That is what I want to see.

Mr. DOUGLAS. Let me show you from this rough statement what was done with that money. We got \$2,000,000 in round numbers—a million from the railroad and a million dollars from the loan—\$711,000 paid to the bankers; \$300,000 added to the commission and exchange fund for the redemption of that currency. You see, they had gone through all the \$1,000,000. Chamorro came here and asked me to act as his counsel in the matter. We found that situation. They had gotten almost to the point of finishing the redemption of this whole money, and it was not deemed wise to step backward to the old system, and Conant said: "We have to add \$300,000 to still further protect that exchange fund," so they wanted \$300,000 there, and \$711,000 there; there is \$1,110,000 we had to pay out. We had to pay increased bank stock \$200,000; then there was interest, \$60,000—

Senator HITCHCOCK. On what?

Mr. DOUGLAS. On the \$1,000,000 loan. That was added to the note itself. I have not got a detailed statement of every dollar spent. I never acted as treasurer or finance agent.

Senator HITCHCOCK. Was the interest paid in advance? What I am trying to get at is this: Is Nicaragua sinking deeper in debt or do her revenues suffice to pay her operating expenses and interest?

Mr. DOUGLAS. The letter I will send you from Mr. Cuadra to Secretary Bryan states—and I went over it carefully, spending a good many hours on several occasions with Mr. Cuadra. He says that the revenues of the Government will enable them to borrow \$10,000,000 and to run the Government and to pay the interest on the debt and have about \$200,000 a year left. Of course, Nicaragua, it might be said, will be stepping backward if it were not for the fact that her railroad and the bank and the customs receipts are all substantially improving, and if Nicaragua had these matters out of the way and no longer in the field of debit and knew just where she stood, and if capital could be permitted, not induced, but she is

almost in the position where capital only wants to be permitted to go into Nicaragua—I mean American capital. Nicaragua has so come to the front that I think she could stand easily a loan of \$10,000,000 or \$12,000,000.

Secretary BRYAN. To take up all these things?

Mr. DOUGLAS. To take up these things.

The CHAIRMAN. The internal revenue; is that an important item of their resources?

Mr. DOUGLAS. Yes, sir; they realize over a million a year,

Senator HITCHCOCK. What would her per capita indebtedness be if she had \$10,000,000?

Mr. DOUGLAS. I could not answer that, Senator.

Senator HITCHCOCK. My impression is we figured that out, and it would be more than the per capita indebtedness of the United States.

Senator SMITH of Michigan. It would.

Secretary BRYAN. The population is about 600,000. ✓

Senator SMITH of Michigan. Then it would be more than the per capita indebtedness of the United States and a much higher rate of interest. Now, can the people stand that?

Mr. DOUGLAS. They can stand it better than going deeper and deeper and deeper into the mire until after awhile there will be no Nicaragua there except on the map as a physical proposition. Nicaragua can not survive in the present state of matters. You might as well eliminate it. Any government will go to pieces without money. I will answer this way. I do not know what will be the per capita, but Nicaragua owes this money. She might go forward and repudiate the other debt.

Senator HITCHCOCK. As a matter of fact Nicaragua has not twice the population of the city of Washington?

Mr. DOUGLAS. It is not more than that, I think.

Senator HITCHCOCK. All poor people?

Senator SMITH of Michigan. It is about 450,000.

Mr. DOUGLAS. More than that, Senator.

Senator SMITH of Michigan. In your treaty, which you were discussing awhile ago—the difference between the other treaty and this one—you have made one change. The money that was to be paid under the old treaty was to go to representatives of the United States Government and of the Nicaraguan Government?

Mr. DOUGLAS. Yes, sir.

Senator SMITH of Michigan. I see you have taken that out and the money is to go directly to the minister of finance, who is now here, I believe?

Mr. DOUGLAS. Yes, sir.

Senator SMITH of Michigan. To be disposed of as he desires?

Mr. DOUGLAS. Disposed of under the law.

Senator SMITH of Michigan. But it is to go direct to him?

Mr. DOUGLAS. It is to go direct to him, to the debts of Nicaragua.

Senator SMITH of Michigan. This commission, rather?

Mr. DOUGLAS. Yes, sir.

Senator HITCHCOCK. The statement has been made to me that the Cuadra family owns Nicaragua. Is it true that the Cuadra family runs Nicaragua?))

Mr. DOUGLAS. I do not think it is true. President Diaz is a pretty strong individual. He is not a member of the Cuadra family.

Senator HITCHCOCK. I have heard that the secretary of finance is Cuadra; the confidential agent for the loan is another Cuadra?

Mr. DOUGLAS. Who is he?

Senator HITCHCOCK. I do not know.

Mr. DOUGLAS. There is no confidential agent for the loan.

Senator HITCHCOCK. The judge on the Mixed Claim Commission is Cuadra?

Senator SMITH of Michigan. Yes.

Senator HITCHCOCK. And the private secretary to the President is a Cuadra, and the Cuadra family really run the Republic?

Mr. DOUGLAS. Well, the Chamorro family is a very powerful family, and Mr. Cuadra—the Cuadra family—does not run Gen. Chamorro, who was the head of the revolution, who is now minister to the United States, and I am equally assured they do not run the President of Nicaragua, and if they run the Congress of Nicaragua it must be because they are so powerful in numbers and in influence that they simply have it.

Senator SMITH of Michigan. Is it not a fact that President Diaz was the secretary of an American company at the time he was put into the presidency?

Mr. DOUGLAS. I think that is true.

Senator SMITH of Michigan. He was getting a very small and inconsequential salary, about \$1,000 a year as a secretary of an American company, and he has been maintained in the presidency largely through the presence of our marines there, has he not?

Mr. DOUGLAS. I do not know, but I do not think so. I do know that the overwhelming majority of the Congress in Nicaragua is in sympathy with him, and I have seen no evidence of the fact that revolution is threatening there; that a revolution has been threatening there almost every month I am free to admit I believe is true. That, however, is no reflection on the President of Nicaragua.

The CHAIRMAN. Do you know whether President Diaz and his Government desires that these marines remain at the capitol?

Mr. DOUGLAS. I think they prefer they should remain there on the principle that their very presence will enable him to suppress revolution without resort to force to do it.

The CHAIRMAN. You mean using these marines for that purpose?

Mr. DOUGLAS. I mean in the event there is a revolution there, perhaps. But he has never used them and there has been no revolution since he came in. That he desires them to remain there I have no reason to doubt.

Senator HITCHCOCK. Is the feeling friendly toward the United States? You have not been down there?

Mr. DOUGLAS. I have not been down there. Absolutely, entirely so.

Senator WILLIAMS. What would be the objection, the object of this loan being to pay the debts of Nicaragua to help get her out of this financial stress—what would be the objection to providing in the treaty for its direct payment to the creditors?

Mr. DOUGLAS. I think Nicaragua would object to that.

Senator SHIVELY. You think Nicaragua would object?

Mr. DOUGLAS. I think she would.

Senator SMITH of Michigan. Why?

Senator WILLIAMS. Brown Bros. and Seligman to advance it and cancel it and pay the balance to Nicaragua.

Mr. DOUGLAS. Yet this money will all be paid to the real creditors of Nicaragua and paid intelligently. I think we can arrange to satisfy this committee as to that.

Senator SAULSBURY. I suggest that Judge Douglas prepare a brief argument, and I know he can prepare a brief which we can all understand and get all the points of his argument. I think it would be very desirable for the committee to have that.

Mr. DOUGLAS. I am going to give you copies of the present contracts of Nicaragua.

The CHAIRMAN. When can you let us have them?

Mr. DOUGLAS. I have them here. They are as follows: First, the Republic of Nicaragua and National Bank of Nicaragua (Inc.); second, the Republic of Nicaragua and Ferrocarril del Pacifico de Nicaragua, agreement; third, the Republic of Nicaragua and Brown Bros. & Co. and J. & W. Seligman & Co., agreement for purchase of Treasury bills; fourth, the Republic of Nicaragua and United States Mortgage & Trust Co.; fifth, the Republic of Nicaragua and Brown Bros. & Co. and J. & W. Seligman & Co., agreement for purchase of railroad and bank stock.

WASHINGTON, D. C., May 13, 1914.

HON. WILLIAM J. BRYAN,
Secretary of State, Washington, D. C.

MY DEAR MR. SECRETARY: In view of the delay in getting through the treaty between the United States and Nicaragua—I of course understand it has not been possible for the administration to have the treaty acted upon before this—I feel it my duty as the financial agent of Nicaragua to present to you the financial and general situation of Nicaragua with the specific purpose in view of asking you to use your good offices with the bankers in New York to induce them to help the Republic of Nicaragua over and through the present crisis.

My observations and suggestions contained in the body of this letter are necessarily based upon the assumption that the treaty will be presented and acted upon before the adjournment of the present session of Congress, for, I am sure you will permit me to say, that such a course is absolutely essential if the treaty is to be adopted at all and any relief is to result therefrom to Nicaragua in her present distressed financial condition.

You doubtless know that my country has been for more than a score of years under the pressure of bad administration and that since the commencement of the administration of President Diaz great and energetic efforts have been made, with the aid of American experts, to put the Republic on a sound financial basis.

The original plans formulated, with which you are doubtless in a measure familiar, contemplated the placing of a permanent loan of \$15,000,000, and if this plan had been carried out Nicaragua would be in good financial condition now and, in my judgment, peace, order, and prosperity would have everywhere prevailed throughout the country; but various circumstances and events intervened that caused Nicaragua to suffer from an utter inability on its part to prosecute to a successful termination negotiations for a permanent loan, and the result was temporary loans were made, and the Republic was in consequence compelled to go along halt and lame because of the inability of the administration to finance the Republic.

At the commencement of the present administration of the affairs by the United States the Republic of Nicaragua owed to the bankers of New York (Brown Bros. and Seligman & Co.) the sum of \$723,575.26, and there was outstanding an option running to and in favor of the bankers to purchase 51 per cent of the railroad, then wholly owned by the Government, for the sum of \$1,000,000. I should have stated before that that much money had been used by the Government in putting into execution the plan of the American financial experts to put the country upon a sound financial basis. There was involved in this, among other things, the organization and operation of the National Bank of Nicaragua.

The currency of the country, before the adoption of the plans of the American financial experts, consisted of legal tender notes, not guaranteed. There was, antecedent to the initiation of the new financial plan of Nicaragua, and commencing with the administration of President Diaz, in circulation about \$48,760,000 in paper money of the country, and the prevailing rate of exchange at that time was \$2,000 of the money of Nicaragua for \$100 of American money. To get rid of this currency, the bankers of New York loaned to Nicaragua, in round numbers, \$2,000,000, but the Republic was compelled immediately to begin the repayment of this money, it having been secured at the time of the making of the loan by pledge of the customs receipts. Notwithstanding this handicap, the Republic of Nicaragua retired from circulation \$24,000,000 in billets, thereby reducing the rate of exchange from \$2,000 to \$100 American money to \$1,250 to \$100 American gold, and this was all done on advice of American financial experts who went to Nicaragua to study the matter on the ground. And hence very little of the proceeds of the \$2,000,000 loan went to the payment of the pressing debts of the Republic, so that it transpired, as stated above, that at the time of the commencement of your distinguishing services as Secretary of State Nicaragua was indebted to the bankers in the sum of \$728,575.26, with the outstanding option of the railroad, as stated above.

In October of the year 1913 the Republic, under the option aforesaid, sold to the bankers 51 per cent of the railroad company for the sum of \$1,000,000, at the same time negotiating a loan for \$1,000,000, but this money was expended in the following manner:

Due to the bankers.....	\$728, 575. 26
Republic's portion of the increase of the capital stock of the bank.....	47, 000. 00
For the increase of the exchange fund.....	350, 000. 00
Amounts due on account of current salaries and other expenses of the Government.....	874, 424. 74

From this statement it will be seen that Nicaragua only realized for its governmental exigencies and the payment of its Government debts, out of this October transaction, \$874,424.74.

It will be seen, therefore, that the Republic owes the bankers in New York \$1,060,000 with interest added up to October, 1914.

I think all of us are agreed that the monetary reform system, which has already cost Nicaragua a very considerable sum, should be continued, but I fear this can not be done if the Republic is not financed.

Let me give to you in this connection and in a tabulated way the financial obligations of the Government (the several amounts being stated in American money):

1. Ethelburger debt (\$31,500 for payment of interest and the creation of the sinking fund being secured by lien on the customs receipts)....	\$6, 000, 000
2. Brown Bros. and Seligman & Co., due Oct. 8, 1914.....	1, 060, 000
3. Correspondent, for orders executed in several years.....	378, 080
4. Emery claim.....	500, 000
5. Creditors in gold, cash loaned to the Government in different years...	1, 645, 072
6. Other accounts.....	3, 478, 387
Total.....	13, 061, 539

This statement does not include the unpaid judgments of the Mixed Claims Commission, nor does it include the amounts that may be yet ordered to be paid by the judgments of the Mixed Claims Commission.

It is reasonably safe to say that the estimate of the last budget of the Government is true in the statement that there should be for the present fiscal year, for the Government, a gross income of \$3,800,000, made up as follows:

Customhouse receipts, estimated.....	\$1, 800, 000
From liquors and tobacco, tax.....	1, 500, 000
Income from telephones and telegraphs, railroads, railroad dividends, etc.....	500, 000
Total.....	3, 800, 000

The running expenses of the Government might be safely estimated to be \$3,200,000. There should, therefore, be left for the payment of interest, sinking fund, etc., from the yearly gross income of the Government, even on the basis of the present pressed conditions there prevailing, \$600,000.

The debts of pressing nature really amount to about \$5,000,000. The balance of the indebtedness of the Republic over and above the \$5,000,000 and inclusive of the Ethelberger debt, do not require immediate financing. To put Nicaragua on the basis of any sort of permanency, therefore, \$5,000,000 is necessary.

As I stated before, my estimates of the immediate and pressing needs of the Government, without which the Government can not for many days exist, is based upon the assumption that the treaty will be acted upon before the present Congress of the United States shall adjourn.

In sending this letter to you, I am doing so for the specific purpose of asking for a conference with you and our counsel, Mr. Douglas, hoping that the result of this conference will be the issuance of the request by you to the bankers for a conference here in your office in Washington, which conference will have for its purpose devising the ways and means to help immediately the situation which I have tried clearly to detail in this letter.

I beg to remain yours, very truly,

PEDRO RAFAEL CUADRA,
Financial Agent of Nicaragua.

EXHIBIT L.

AGREEMENT.

THE REPUBLIC OF NICARAGUA AND NATIONAL BANK OF NICARAGUA (INC.).

[Dated October 8, 1913.]

Agreement, made at the City of New York this 8th day of October, 1913, between the Republic of Nicaragua, hereinafter called the "Republic," party of the first part, and National Bank of Nicaragua (Inc.), hereinafter called the "bank," party of the second part, witnesseth:

Whereas the law of March 20, 1912, of the Republic, hereinafter called the "Monetary law," authorized the bank as the agent of the Republic to issue bank notes in exchange for the National currency then in circulation; and

Whereas said monetary law provided for the setting aside of certain moneys, which, together with any additions or increments thereto, should constitute a fund called the "Exchange fund"; and

Whereas, in order to further guarantee the stability of the currency, it is deemed expedient to increase said exchange fund and to have the same administered by said bank:

Now, therefore, for and in consideration of the premises and of the mutual covenants and undertakings hereinafter contained, it is hereby agreed as follows:

First. The exchange fund mentioned in article ninth of the monetary law, and all replenishments, additions, and increments thereto, shall hereafter be held and administered by the bank, and shall be deposited in special accounts in New York or London, apart from the funds of the bank.

Second. The Republic shall forthwith pay or cause to be paid to the bank the sum of \$350,000 as an addition to said exchange fund.

Third. If, whenever, and as often as the exchange fund deposited in New York and London shall fall below \$100,000, United States gold, the same shall be replenished as hereinafter provided until such exchange fund shall amount to \$200,000, United States gold.

Said replenishment shall be effected as follows:

Whenever said exchange fund deposited in New York and London as aforesaid shall fall below \$100,000, United States gold, the bank shall notify the minister of finance of the Republic and the collector general of customs; thereafter and until said fund so deposited shall have been increased to \$200,000, United States gold, the collector general of customs shall, at least monthly, after paying the expenses attending the collection of customs, after remitting to New York or Europe the sums required for the service of the 1909 bonds of the Republic, as required by the agreement of May 25, 1912, between the Republic and the corporation of foreign bondholders, and after setting aside such sums, if any, as may be required by the indemnity agreement between the Republic and said corporation of foreign bondholders, dated October 31, 1912, deposit with the bank as additions to the exchange fund a sum equal to 25 per cent of the total gross amount of said customs.

This provision for the replenishment from time to time of the exchange fund shall be, and is hereby, made a lien and charge on the customs of the Republic, subsequent only (1) to the lien established in favor of the holders of 1909 bonds by the agreement of May 25, 1912, above referred to, and (2) to the lien in favor of the corporation of

foreign bondholders in accordance with the indemnity agreement of October 31, 1912, above mentioned.

As the bank notes issued under the monetary law have been and will continue to be issued by the bank solely as the agent of the Republic, the Republic will hold the bank harmless against any claims that may be made against it by reason of such notes.

Fourth. The Republic shall forthwith pay or cause to be paid to the bank all sums on deposit with the United States Mortgage & Trust Co. under the provisions of an agreement known as the "Treasury bills agreement," dated September 1, 1911, between the Republic and Brown Bros. & Co. and J. & W. Seligman & Co., and also all sums which may be remitted to said trust company for account of the Republic or as part of the exchange fund; and the bank shall thereupon hold and dispose of said sums upon the same trusts and for the same purposes as under existing contracts would govern their disposition in the hands of said trust company. The present agreement shall be sufficient authority to the United States Mortgage & Trust Co. to make the payments aforesaid.

Fifth. The Republic shall forthwith pay or cause to be paid to the bank the following sums:

1. Ten thousand dollars as compensation for the bank's services in connection with the conversion of the national currency, from August 1, 1913, to July 31, 1914, inclusive.

2. Sixty thousand dollars or such other sum as may still be owing from the Republic to the bank on account of the loan of 1,500,000 pesos which became due on February 8, 1913, or on account of any other transaction between the Republic and the bank.

3. Thirty thousand dollars or such other sum as may be owing from the Republic to the bank on account of advances recently made for army pay rolls and other Government expenses.

Sixth. The collection of the internal revenue of the Republic, at present in charge of the bank, shall be resumed by the Republic and the payment of the interest on the internal-revenue bonds of the Republic shall no longer be made through the bank.

Seventh. This agreement shall be deemed to be and shall be construed as a New York contract.

Eighth. Within 10 days from the date hereof the Republic shall file with the Department of State of the United States of America, an original executed counterpart of this contract.

Ninth. Upon the execution hereof the originals of this contract shall be deposited with Curtis, Mallet-Prevost & Colt, No. 30 Broad Street, New York City, in escrow to be delivered by them, one to Señor Don Pedro Rafael Cuadra, one to National Bank of Nicaragua, (Inc.), one to Brown Bros. & Co., one to J. & W. Seligman & Co., and one, in accordance with eighth above, to the Department of State of the United States, when and as soon as a decree approving this contract sufficient in the opinion of said Curtis, Mallet-Prevost & Colt shall have been made by the Executive of the Republic and deposited with National Bank of Nicaragua (Inc.), in Managua, and the latter shall have notified Brown Bros. & Co. and J. & W. Seligman & Co. by cable of the making and deposit of such decree; provided, however, that such decree shall be made and deposited and notice thereof received within seven days from the date hereof, or within such further period as the parties hereto may agree. If such executive decree be not made and deposited and notice thereof received by cable as aforesaid, within said seven days, or within such further period as the parties hereto may agree, this agreement shall be null and void and shall be canceled by said Curtis, Mallet-Prevost & Colt.

In witness whereof the Republic has caused this agreement to be subscribed on its behalf by Señor Don Pedro Rafael Cuadra, minister of finance and financial agent of Nicaragua, and the National Bank of Nicaragua (Inc.) has caused this contract to be executed by its president thereunto duly authorized and its seal to be hereto affixed and attested the day and year first above written.

This contract is executed in quintuplicate.

PEDRO RAF. CUADRA,
Minister of Finance and Financial Agent of the Republic of Nicaragua.

[SEAL.]

NATIONAL BANK OF NICARAGUA (INC.),

By JAMES BROWN, *President.*

Attest:

J. A. WHITAKER, *Secretary.*

EXHIBIT 2.

AGREEMENT.

THE REPUBLIC OF NICARAGUA AND FERROCARRIL DEL PACIFICO DE NICARAGUA.

[Dated October 8, 1913.]

Agreement, made at the city of New York this 8th day of October, 1913, between the Republic of Nicaragua, hereinafter called the "Republic," party of the first part, and Ferrocarril del Pacifico de Nicaragua, hereinafter called the "railroad company," party of the second part: Witnesseth:

Whereas the parties hereto desire to provide for the payment of certain dividends by the railroad company and to adjust and settle certain other matters hereinafter mentioned:

Now, therefore, for and in consideration of the premises and of the mutual covenants and undertakings hereinafter contained, it is hereby agreed as follows:

First. All cash earnings of the railroad on hand as of October 1, 1913, after setting aside an amount sufficient to discharge all unpaid obligations of said railroad for running expenses to that date, and all unpaid obligations for betterments and improvements up to September 11, 1913, including the items mentioned in a letter dated August 16, 1913, from Brown Bros. & Co. and J. & W. Seligman & Co. to Hon. Pedro Rafael Cuadra, minister of finance of the Republic of Nicaragua addressed to him at the Nicaraguan Legation at Washington, and after payment by the Republic of such sums as may be due from it to the railroad company for services rendered or as a result of contract obligations, shall be distributed as a dividend and paid in whole to the Republic, and any additional expenditures or obligations incurred or made by the railroad for account of capital between September 11, 1913, and October 1, 1913, shall be regarded as having been made after October 1, 1913, and shall be dealt with accordingly.

Second. The Republic hereby confirms and warrants the title of the railroad to the oil tank at Corinto free from any lien or claim.

Third. The branch line from Momotombo in the direction of Matagalpa is hereby declared to be a branch of the main line within the provisions of Article I, section 1, of the concession of June 19, 1912.

Fourth. The railroad shall return to the Republic the steamer *Nicarao*, which it has been using on Lake Nicaragua. No charge shall be made by the Republic for such use, neither shall the Republic be liable for the cost of the repairs made to said steamer.

Fifth. This agreement shall be deemed to be and shall be construed as a New York contract.

Sixth. Within 10 days from the date hereof the Republic shall file with the Department of State of the United States of America an original executed counterpart of this contract.

Seventh. Upon the execution hereof, the originals of this contract shall be deposited with Curtis, Mallet-Prevost & Colt, No. 39 Broad Street, New York City, in escrow, to be delivered by them one to Senor Don Pedro Rafael Cuadra, one to Ferrocarril del Pacifico de Nicaragua, one to Brown Brothers & Co., one to J. & W. Seligman & Co., and one, in accordance with sixth above, to the Department of State of the United States, when and as soon as a decree approving this contract sufficient in the opinion of said Curtis, Mallet-Prevost & Colt shall have been made by the Executive of the Republic and deposited with National Bank of Nicaragua (Inc.), in Managua and the latter shall have notified Brown Brothers & Co., and J. & W. Seligman & Co. by cable of the making and deposit of such decree; provided, however, that such decree shall be made and deposited and notice thereof received within seven days from the date hereof or within such further period as the parties hereto may agree. If such executive decree be not made and deposited and notice thereof received by cable as aforesaid within seven days or within such further period as the parties hereto may agree this agreement shall be null and void and shall be cancelled by said Curtis, Mallet-Prevost & Colt.

In witness whereof the Republic has caused this agreement to be subscribed on its behalf by Senor don Pedro Rafael Cuadra, minister of finance and financial agent of Nicaragua, and Ferrocarril del Pacifico de Nicaragua has caused this concession

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to be executed by its president thereunto duly authorized and its seal to be hereto affixed and attested the day and year first above written.

This contract is executed in quintuplicate.

[SEAL.] PEDRO RAF. CUADRA,
Minister of Finance and Financial Agent of the Republic of Nicaragua.
FERROCARRIL DEL PACIFICO DE NICARAGUA,
By FREDERICK STRAUSS, *President.*

Attest:

JASON A. NEILSON, *Secretary.*

EXHIBIT 3.

AGREEMENT FOR PURCHASE OF TREASURY BILLS.

THE REPUBLIC OF NICARAGUA AND BROWN BROS. & CO. AND J. & W. SELIGMAN & CO.

[Dated Oct. 8, 1913.]

Agreement, made at the city of New York this 8th day of October, 1913, between the Republic of Nicaragua, hereinafter called the "Republic," party of the first part, and Brown Bros. & Co. and J. & W. Seligman & Co., copartnerships doing business in the city of New York, hereinafter called the "bankers," parties of the second part, witnesseth:

Whereas for the purpose of liquidating certain indebtedness of the Republic, of providing further funds to insure the stability of the currency of the Republic, of increasing the capital of the National Bank of Nicaragua (Inc.), of providing for the Republic's current expenses, and for other purposes, the Republic wishes to sell gold treasury bills about to be issued, to be known as "Republic of Nicaragua treasury bills of 1913," representing an aggregate principal amount of \$1,060,000 United States gold.

Now, therefore, in consideration of the premises and of the mutual covenants and undertakings hereinafter contained, and in consideration of the covenants and undertakings by the Republic in various other contracts executed simultaneously herewith, it is hereby agreed as follows:

ARTICLE FIRST.

The Republic shall forthwith issue its gold treasury bills to the aggregate principal amount of \$1,060,000 United States gold, under a contract of even date herewith between the Republic and the United States Mortgage & Trust Co., as trustee, a copy of which contract, marked "Schedule No. 1," is hereto annexed and made a part hereof, and shall cause said bills to be certified by the trustee as in said contract provided.

ARTICLE SECOND.

The Republic hereby sells, assigns, and transfers to the bankers, and the bankers hereby purchase the entire issue of said treasury bills for the sum of \$1,000,000 United States gold, to be paid upon the delivery of said bills.

ARTICLE THIRD.

This agreement shall be deemed to be and shall be construed as a New York contract.

ARTICLE FOURTH.

This contract has been submitted to the Secretary of State of the United States for his approval, and it is hereby agreed that within 10 days from the date hereof the Republic shall file with the Department of State of the United States of America an original, executed counterpart of this contract.

ARTICLE FIFTH.

Upon the execution hereof the originals of this contract shall be deposited with Curtis, Mallet-Prevost & Colt, No. 30 Broad Street, New York City, in escrow, to be delivered by them, one to Senor don Pedro Rafael Cuadra, three to the bankers, and

one, in accordance with article fourth above, to the Department of State of the United States, when and as soon as a decree approving this contract sufficient in the opinion of said Curtis, Mallet-Prevost & Colt shall have been made by the executive of the Republic and deposited with the National Bank of Nicaragua (Inc.), in Managua, and the latter shall have notified the bankers by cable of the making and deposit of such decree: *Provided, however*, That such decree shall be made and deposited and notice thereof received within seven days from the date hereof or within such further period as the parties hereto may agree. If such executive decree be not made and deposited and notice thereof received by cable as aforesaid within said seven days or within such further period as the parties hereto may agree, this agreement shall be null and void and shall be canceled by said Curtis, Mallet-Prevost & Colt.

In witness whereof the Republic has caused this contract to be subscribed on its behalf by Senor don Pedro Rafael Cuadra, minister of finance and financial agent of the Republic of Nicaragua, and said Brown Bros. & Co., and said J. & W. Seligman & Co., have hereunto set their hands and seals the day and year first above written.

This contract is executed in quintuplicate.

PEDRO RAF. CUADRA,
Minister of Finance and Financial Agent of the Republic of Nicaragua.
BROWN BROS. & Co.
J. & W. SELIGMAN & Co.

[SEAL.]
[SEAL.]

EXHIBIT 4.

COLLATERAL TRUST AGREEMENT.

THE REPUBLIC OF NICARAGUA AND UNITED STATES MORTGAGE & TRUST CO.

[Dated Oct. 8, 1913.]

Agreement, made at the city of New York this 8th day of October, 1913, between the Republic of Nicaragua, hereinafter called the "Republic," party of the first part, and United States Mortgage & Trust Co., a corporation organized under the laws of the State of New York, hereinafter called the "trustee" party of the second part, witnesseth:

Whereas for the purposes of providing for the payment of its obligations, of insuring the stability of its currency system and other purposes, the Republic proposes to create and issue its treasury bills to the aggregate principal amount of \$1,060,000 United States gold, to be secured as hereinafter provided; and

Whereas the execution of this agreement and the issue of bills herein described has been duly authorized by the Republic and all action has been taken necessary to make said bills the legal obligations of said Republic; and

Whereas the Republic desires the United States Mortgage & Trust Co. to act as trustee under this agreement:

Now, therefore, in consideration of the premises and of the mutual covenants and undertakings hereinafter contained, it is hereby agreed as follows:

ARTICLE FIRST.

The Treasury bills.

SECTION 1. The Republic shall issue its bills to the aggregate principal amount of \$1,060,000 United States gold, which shall be designated and known as "Republic of Nicaragua treasury bills of 1913" (hereinafter for brevity called the "bills").

SEC. 2. The bills shall be in denominations of \$5,000 and \$10,000 each; shall be dated the 1st day of October, 1913; shall be payable in gold coin of the United States of the present standard of weight and fineness, on the 1st day of October, 1914, without interest; and on and after the 1st day of January, 1914, shall be subject to redemption at the option of the Republic at a premium of 1 per cent upon notice as hereinafter provided.

SEC. 3. The bills shall be payable at the offices of either Brown Bros. & Co. or J. & W. Seligman & Co. in the city of New York; or at the option of the holder, at the offices of Brown, Shipley & Co. or Seligman Bros. in London, England, at the fixed rate of exchange of \$4.85 to the pound sterling; or at the option of the holder, at the office of Seligman Freres & Cie., in Paris, France, at the fixed rate of exchange of 5 francs and 21 centimes to the dollar.

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SEC. 4. The bills shall be in substantially the following form and of substantially the following tenor and purport:

No.

\$

United States gold.

REPUBLIC OF NICARAGUA.

TREASURY BILL OF 1913.

NEW YORK, *October 1, 1913.*

One year from date (fixed) the Republic of Nicaragua, for value received, promises to pay to, or order, the sum of dollars (\$) in gold coin of the United States of America, at the office of either Brown Bros. & Co. or J. & W. Seligman & Co., in the city of New York; or at the option of the holder, at the office of either Brown, Shipley & Co. or Seligman Bros., in London, England, at the fixed rate of exchange of \$4.85 to the pound sterling; or at the office of Seligman Frères & Cie., in Paris, France, at the fixed rate of exchange of 5 francs 21 centimes to the dollar.

This bill is issued in pursuance of and subject to an agreement between the Republic of Nicaragua and United States Mortgage & Trust Co., of New York, dated, 1913.

.....
Minister of Finance and Financial Agent.

Authenticated as a bill described in the within-mentioned agreement dated, 1913.

UNITED STATES MORTGAGE & TRUST CO., *Trustee.*
By

SEC. 5. The bills shall be signed in the city of New York by the minister of finance and financial agent of the Republic.

SEC. 6. Each bill shall bear thereon a certificate substantially in the form as shown in section 4 above, which shall be signed by the trustee, authenticating such bill; no bill shall be valid without such certificate so signed; and such certificate shall be conclusive evidence that the bill so certified has been duly issued in pursuance of this agreement and that the holder is entitled to the benefits thereof. Bills to the amount of said issue shall be signed by the minister of finance and financial agent of the Republic and delivered to the trustee for certification as aforesaid, and when so certified shall be delivered by the trustee to Brown Bros. & Co. and J. & W. Seligman & Co.

SEC. 7. The loan represented by said bills shall constitute and is hereby declared to be a direct liability and obligation of the Republic irrespective of any security provided hereunder, and the Republic hereby pledges its faith and credit for the due and punctual payment of said bills and for the performance of all its undertakings hereunder.

SEC. 8. The Republic shall pay the stamp and other duties, if any, to which under the laws of the Republic this agreement is or may be subject, and the bills shall be exempt from all taxes now or hereafter established by or within the Republic. The Republic shall also pay the stamp and other duties, if any, to which under the laws of either the United States, Great Britain, or France, said bills may be subject.

ARTICLE SECOND.

Security.

SECTION 1. The Republic covenants and agrees that the bills shall be and they hereby are secured as follows:

(a) By a lien or charge upon all import and export customs duties receivable by or for the Republic from and after the date of said bills; said lien or charge upon said customs duties being, however, subject to the following prior liens thereon:

(1) To the lien created in favor of certain of the 1909 bonds of the Republic by the agreement of May 25, 1912, between the Republic and the "Corporation of Foreign Bondholders."

(2) To the lien created in favor of the "Corporation of Foreign Bondholders" by the indemnity agreement between the Republic and said corporation dated October 31, 1912; and

(3) To the lien in favor of the National Bank of Nicaragua, incorporated, for insuring the stability of the currency exchange fund created by an agreement of even date herewith between the Republic and said bank.

(b) By a first lien or charge on 1,470 shares of the capital stock of the National Bank of Nicaragua (Inc.), certificates for which, duly indorsed in blank, are pledged and deposited with the trustee upon the execution hereof. Said certificates shall be in the name of the minister of finance of the Republic, or of such person or persons as he may from time to time designate; and before being deposited as aforesaid, shall be stamped as required by a contract of even date herewith between the Republic and Brown Bros. & Co. and J. & W. Seligman & Co.

(c) By a first lien or charge on 16,170 shares of the capital stock of Ferrocarril del Pacifico de Nicaragua, certificates for which shares, duly indorsed in blank, are pledged and deposited with the trustee upon the execution hereof. Said certificates shall be in the name of the minister of finance of the Republic, or of such person or persons as he may from time to time designate; and before being deposited as aforesaid, shall be stamped as required by a contract of even date herewith between the Republic and Brown Bros. & Co. and J. & W. Seligman & Co.

SEC. 2. So long as no default shall exist in respect to any of the covenants, stipulations, and conditions herein or in said bills set forth on the part of the Republic to be performed, the Republic shall be entitled to receive all dividends upon the shares of stock held and pledged hereunder, and voting power upon such shares shall be exercised by such person or persons as the minister of finance of the Republic may from time to time designate. In the event, however, of any such default, the trustee shall be entitled to receive all dividends upon the shares of stock pledged hereunder, and shall hold or apply such dividends for the benefit or security of the holders of bills hereunder; and, in order that said dividends shall be paid to it for the purposes aforesaid, said trustee may at its option cause said shares of stock to be transferred to its name or that of its nominee, and when so transferred said shares shall continue to be held by said trustee under the terms of this agreement as security hereunder.

ARTICLE THIRD.

Collection of customs.

The provisions of the agreement of May 25, 1912, between the Republic and the "Corporation of Foreign Bondholders" with respect to the collection of customs, are hereby ratified and confirmed; and it is hereby agreed that, so long as any of the bills shall remain unpaid, all customs duties, both on exports and imports, receivable by or for the Republic, shall be collected and administered by the collector general of customs as set forth in article fifth of the treasury bills agreement of September 1, 1911, between the Republic of Nicaragua and Brown Bros. & Co. and J. & W. Seligman & Co., under which the United States Mortgage & Trust Co. has heretofore acted as trustee. The provisions of sections 2, 3, and 4 of said article fifth of said treasury bills agreement are hereby continued in force during the life of the bills issued hereunder, and are hereby incorporated into and made applicable to this agreement; provided, however, that so long as there shall be no default hereunder, any amounts so collected not required for the purposes of the three agreements mentioned in article second, section 1, subdivision (a) above, shall be payable to the Republic by deposit to its credit with the National Bank of Nicaragua (Inc.).

ARTICLE FOURTH.

Enforcement of security upon default.

In case default shall be made in the payment of any bill (or in case default shall be made in the due performance of any of the covenants of the Republic hereunder and any such last-mentioned default shall continue for a period of 30 days after written notice thereof and demand of performance), then and in each such case the trustee shall forthwith notify the collector general of customs of such default; and thereafter all import and export customs duties, after payment of the expenses attending the collection of the same, and after setting aside such amounts, if any, as may be required by the agreements mentioned in article second, section 1, subdivision (a) above, and so long as any of the bills, or any interest thereon, remain unpaid, shall from time to time, at least monthly, be remitted to the trustee. The amounts so to be received by the trustee shall from time to time be applied by it as follows:

1. To the payment of all expenses, liabilities, and advances made or incurred by the trustee in the conduct and enforcement of the trusts hereby created, including a reasonable compensation to the trustee, its agents, attorneys, and counsel.

2. To the payment from time to time, ratably among the holders of the bills hereby secured, of the amounts owing and unpaid upon such bills, without preference of any

bill over any others, until the whole amount owing or unpaid upon such bills, with interest at the rate of 6 per cent per annum from and after the date of their maturity, shall have been paid.

Notwithstanding the provisions hereinbefore contained with reference to the disposition and application of the customs revenues in case of default as aforesaid, the trustee may, and if thereunto requested by the holders of a majority in amount of the bills issued and outstanding hereunder, and if indemnified to its satisfaction for its costs and expenses in so doing, shall, proceed to sell the shares of stock pledged hereunder; provided, however, that at the date of such sale or sales the whole amount owing or unpaid upon the bills hereby secured, with interest at the rate of 6 per cent per annum from and after the date of their maturity, and the compensation and expenses of the trustee, shall not have been liquidated; provided also that the shares of stock of the National Bank of Nicaragua (Inc.) shall be first sold, but not until the expiration of six months after such default; and provided further, that the shares of Ferrocarril del Pacifico de Nicaragua shall be sold second, but not until the expiration of one year after such default.

The sale or sales to be made hereunder shall be at public auction at such place in the city of New York and at such time and upon such terms as the trustee may specify.

Notice of any such sale shall state the time when and the place where the same is to be held, and shall contain a brief general description of the securities to be sold; such notice shall be published twice a week for two successive weeks prior to such sale in a daily newspaper published in the city of New York, and a copy of said notice shall, at least two weeks prior to the date of sale, be sent to the Republic as hereinafter provided.

The trustee shall have the power in its discretion to adjourn any such sale from time to time as to the whole or any part of the property to be sold, and if so adjourned shall have power to make such sale upon the date to which the adjournment is had, without further notice of the time or place to which the sale may be so adjourned.

Upon the completion of any such sale or sales, the trustee shall transfer and deliver such of the shares of stock as shall have been sold to the purchaser or purchasers thereof, and the same shall thereupon be freed and discharged from the trusts and lien hereby created. The trustee and its successors are hereby appointed true and lawful attorney or attorneys irrevocable of the Republic, in its name to make, execute, and deliver to such purchaser or purchasers such good and sufficient assignments, transfers, or other instruments as may be necessary or proper to vest in such purchaser or purchasers full and complete title and ownership of and to the shares of stock so sold.

The receipt of the trustee for the purchase money shall be sufficient discharge for the purchaser or purchasers of any of said shares for his or their purchase money.

Upon any such sale the trustee or any holder of bills hereunder or any other person may bid for and may purchase the stock offered for sale or any part thereof.

The proceeds of any sale made as aforesaid, in so far as the amounts theretofore received by the trustee from the collector general of customs, as hereinbefore provided, or the amounts realized under any earlier sale of securities hereunder may have been insufficient for the purpose, shall be applied as follows:

1. To the payment of the costs and expenses of such sale, including a reasonable compensation to the trustee, its agents, attorneys, and counsel, and of all expenses, liabilities, and advances made or incurred by the trustees in the conduct and enforcement of the trusts hereby created;

2. To the payment of the whole amount then owing or unpaid upon the bills hereby secured, with interest at the rate of 6 per cent per annum from and after the date of their maturity, or, in case of the insufficiency of such proceeds for that purpose, then to the payment ratably of the amounts owing and unpaid upon such bills, without preference of any bill over any others; and

3. To the payment of the surplus, if any, to the Republic or to whomsoever shall be lawfully entitled to receive the same.

ARTICLE FIFTH.

Redemption of bills.

On and at any time after the 1st day of January, 1914, the Republic, at its option, may redeem all or any of the bills at that time outstanding by paying the principal amount of such bills, together with the premium of 1 per cent thereon, provided that the Republic shall by publication in one or more newspapers of general circulation in each of the cities of New York, London, and Paris, respectively, twice a week for one month immediately preceding the date of such redemption, have given prior notice of its intention to so redeem; such notice shall specify the date of redemption,

and if part only of the bills are to be redeemed shall designate the numbers of such bills.

In case the Republic shall desire to redeem, as aforesaid, all bills outstanding, it may deposit with the trustee the amount necessary for such redemption, together with proof that said notice of redemption has been given by publication in the manner aforesaid; and in that case, upon the payment to the trustee of all costs, charges, and expenses to which it may be entitled, the trustee shall cancel and satisfy this agreement. If such deposit and payment shall be made as aforesaid, said deposit as between the Republic and the holders of said bills shall be deemed to be a payment of said bills.

After the shares of stock pledged hereunder shall be thus released from the lien of this agreement, the certificates representing said shares, stamped as required by a contract of even date herewith between the Republic and Brown Bros. & Co. and J. & W. Seligman & Co., shall be delivered to the minister of finance of the Republic, or to such person or persons as he in writing may direct.

ARTICLE SIXTH.

Defeasance.

Whenever the Republic shall pay all bills secured hereunder or shall provide for such payment by depositing with the trustee the entire amount due thereon, if the Republic shall at the same time pay or cause to be paid all other sums payable hereunder, then and in such case the right, title, and interest of the trustee under this agreement shall cease and determine, and the trustee shall deliver to the minister of finance of the Republic, or to such person or persons as he in writing may designate, all securities pledged hereunder, stamped as aforesaid, and shall execute proper instruments acknowledging satisfaction.

ARTICLE SEVENTH.

Concerning the trustee.

SECTION 1. The Republic hereby appoints the United States Mortgage & Trust Co. trustee for the holders of bills, with full power to appoint agents in the United States or Europe, or elsewhere, to act for it in respect thereof, and the United States Mortgage & Trust Co. hereby accepts such appointment.

SEC. 2. The trustee may at any time, instead of acting personally, employ and appoint such agent or agents and attorney or attorneys as it may deem desirable.

SEC. 3. The trustee shall be entitled to reasonable compensation for all services rendered by it in the execution of the trusts hereby created, and the Republic agrees from time to time to pay such compensation and to reimburse the trustee, with interest, for all liability and expenses, including counsel fees, which it may have incurred hereunder.

SEC. 4. The trustee shall not be answerable for the default or misconduct of any agent, attorney, bank, or banker appointed or selected by it in pursuance hereof if such agent, attorney, bank, or banker shall have been selected with reasonable care; or for anything whatever in connection with this trust except for its own willful misconduct.

SEC. 5. The trustee may at any time and from time to time take such steps as it may deem proper for the enforcement of the provisions hereof and for the protection of the rights of the holders of bills hereunder.

SEC. 6. The trustee shall have, in addition to the rights, powers, and duties conferred by law and otherwise by this instrument, the following rights, powers, and duties:

(a) It shall from time to time receive all such sums as shall be paid to it in accordance with this agreement, and shall use and apply in the manner herein authorized the moneys so received.

(b) It may subject to the terms of this agreement, act in accordance with the written order of the minister of finance of the Republic; and the order of the minister of finance as aforesaid shall be full protection to the trustee for action in accordance therewith.

(c) The trustee shall only be chargeable for such moneys as may be actually received by it in the city of New York from the Republic or for its account.

(d) All representations and recitals contained in this agreement and in the bills are made by and on behalf of the Republic, and the trustee is in no way responsible therefor or for any statement therein contained or for any action or thing by it done by reason of any representation made by the Republic or by any of its agents or representatives. The trustee shall be protected in acting upon any notice, request, consent, certificate, bill, or other paper or document believed by it to be genuine and

to be signed by the person or persons purporting to sign the same. It may advise with legal counsel, and the trustee shall incur no liability for any action taken or suffered hereunder by the trustee in accordance with the opinion of such counsel. The trustee shall incur no responsibility in respect of the execution or validity hereof or of said bills, nor in respect of the genuineness, validity, or value of any shares of stock deposited with it, and makes no representations in respect thereof, nor shall it incur any responsibility, except as herein expressly provided, in respect of the disposition of said bills or the application of the proceeds thereof. The trustee shall incur no responsibility by reason of the failure of the Republic or of any other person or persons mentioned herein to carry out or perform any covenant, agreement, or provision of this contract.

SEC. 7. The trustee may withdraw and resign by giving notice to the Republic of such intention, specifying the date when it is desired such withdrawal shall take effect, which shall not be less than one month after such notice to the Republic shall have been given, unless shorter notice shall be accepted by the Republic. In case the trustee shall resign, a successor shall, with the approval of the Secretary of State of the United States, be appointed by the Republic by designation in writing under the hand of the minister of finance of the Republic; a counterpart thereof shall be delivered to such successor, and a counterpart filed in the Department of State of the United States of America.

Any corporation into which the trustee or its successor in the trust may be merged, or any corporation resulting from any merger or consolidation to which the trustee or its successor or successors shall be a party, shall be its successor in the trust hereunder without the execution or filing of any paper or any further act on the part of any of the parties hereto, anything herein to the contrary notwithstanding.

ARTICLE EIGHTH.

Notices.

Any statement, notice, request, or other communication under this contract from the trustee to the Republic shall be in writing, addressed "El Ministro de Hacienda de la República de Nicaragua," and shall be deemed to have been duly given if delivered at the legation of the Republic in Washington, D. C., or at the consulate of the Republic in the city of New York, or if deposited in the mails inclosed in a sealed postage-prepaid package, addressed as above to Managua, Nicaragua. Service of such notice or other communication shall be deemed complete as of the date of such delivery or as of the date of such deposit in the mails; in each case, however, a duplicate of such statement, notice, request, or other communication shall be delivered to the Department of State of the United States.

Any notice or other communication from the Republic to the trustee shall also be in writing, and shall be sufficiently given if addressed to such trustee and delivered at its office in the city of New York.

ARTICLE NINTH.

General provisions.

SECTION 1. This contract shall bind and is for the exclusive benefit of the parties hereto and the holders of the bills issued hereunder.

SEC. 2. This contract shall be deemed to be, and shall be construed as, a New York contract made for the benefit and security of the holders from time to time of the bills issued hereunder; and time is of the essence of this agreement.

SEC. 3. This contract has been submitted to the Secretary of State of the United States for his approval, and it is hereby agreed that within 10 days from the date hereof the Republic shall file with the Department of State of the United States of America an original executed counterpart of this contract.

SEC. 4. Upon the execution hereof the originals of this contract, as well as the bills therein described, executed by the minister of finance shall be deposited with Curtis, Mallet-Prevost & Colt, No. 30 Broad Street, New York City, in escrow, to be delivered by them, one original to Señor Don Pedro Rafael Cuadra, one to the United States Mortgage & Trust Co., one to Brown Bros. & Co., one to J. & W. Seligman & Co., and one, in accordance with section 3, above, to the Department of State of the United States, and the bills to be delivered to the United States Mortgage & Trust Co. for certification, when and as soon as a decree approving this contract sufficient in the opinion of said Curtis, Mallet-Prevost & Colt shall have been made by the Executive of the Republic and deposited with the National Bank of Nicaragua (Inc.), in Ma-

nagua, and the latter shall have notified Brown Bros. & Co. and J. & W. Seligman & Co. by cable of the making and deposit of such decree, provided, however, that such decree shall be made and deposited and notice thereof received within seven days from the date hereof, or within such further period as the parties hereto may agree. If such executive decree be not made and deposited and notice thereof received by cable as aforesaid within said seven days, or within such further period as the parties hereto may agree, this agreement and said bills shall be null and void and shall be canceled by said Curtis, Mallet-Prevost & Colt.

In witness whereof, the Republic has caused this agreement to be subscribed on its behalf by Senor don Pedro Rafael Cuadra, minister of finance and financial agent of the Republic, and the United States Mortgage & Trust Co. has caused this agreement to be subscribed in its name by one of its vice presidents, and its corporate seal to be hereunto affixed and attested by one of its assistant secretaries, the day and year first above written.

This contract is executed in quintuplicate.

PEDRO RAF. CUADRA,

Minister of Finance and Financial Agent of the Republic of Nicaragua.

[SEAL.]

UNITED STATES MORTGAGE & TRUST CO.,

By CARL G. RASMUS, *Vice President.*

Attest:

V. EHRLICHER, *Assistant Secretary.*

EXHIBIT 5.

AGREEMENT FOR PURCHASE OF RAILROAD AND BANK STOCK.

THE REPUBLIC OF NICARAGUA AND BROWN BROS. & CO. AND J. & W. SELIGMAN & CO.

[Dated Oct. 8, 1913.]

Agreement made at the city of New York this 8th day of October, 1913, between the Republic of Nicaragua, hereinafter called the "Republic," party of the first part, and Brown Bros. & Co. and J. & W. Seligman & Co., copartnerships, doing business in the city of New York, hereinafter called the "bankers," parties of the second part; witnesseth:

Whereas the Republic is indebted to the bankers under agreements heretofore made between them; and

Whereas the Republic by contract with the bankers dated March 26, 1912, obligated itself to sell to them at their option 51 per cent of the capital stock of Ferrocarril del Pacifico de Nicaragua, hereinafter called the "railroad company," for \$1,000,000 United States gold; and

Whereas for the purpose of liquidating the indebtedness above mentioned, of providing further funds to insure the stability of the currency of the Republic, of increasing the capital of the National Bank of Nicaragua (Inc.), hereinafter called the "bank," of liquidating the Republic's indebtedness to the bank, of providing for the Republic's current expenses, and for other purposes the Republic has this day sold to the bankers gold treasury bills representing an aggregate principal amount of \$1,060,000 United States gold for the price of \$1,000,000; and

Whereas for the purposes aforesaid the Republic desires and the bankers are willing to exercise the option above mentioned upon the terms and conditions hereinafter set forth; and

Whereas for the purposes aforesaid the Republic wishes and the bankers are willing to purchase 1,530 shares of the capital stock of the bank:

Now, therefore, in consideration of the premises and of the mutual covenants and undertakings hereinafter contained, and in consideration of the covenants and undertakings by the Republic in various other contracts executed simultaneously herewith, it is hereby agreed as follows:

ARTICLE FIRST.

The following contracts executed simultaneously herewith are hereby made a part of this agreement, to wit:

1. A contract between the Republic and the United States Mortgage & Trust Co., as trustee;

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2. A contract between the Republic and the bankers for the purchase of treasury bills;

3. A contract between the Republic and the National Bank of Nicaragua (Inc.); and
4. A contract between the Republic and Ferrocarril del Pacifico de Nicaragua.

Copies of said contracts, marked respectively "Schedule No. 1," "Schedule No. 2," "Schedule No. 3," and "Schedule No. 4," are hereto annexed.

ARTICLE SECOND.

The Republic hereby sells, assigns, and transfers to the bankers 16,830 shares of the capital stock of the railroad company for the sum of \$1,000,000 United States gold, to be paid as hereinafter set forth, upon the delivery and transfer of said shares.

ARTICLE THIRD.

The bankers shall loan to the railroad company, within three years from October 1, 1913, the sum of \$500,000 United States gold, which shall, at the discretion of said company, be expended on extensions and improvements of its railway and steamship lines and/or in the construction of new lines; said loan shall be made by the purchase from the railroad company, at 85 per cent of their par value, of 6 per cent 10-year bonds to be issued by the railroad company, to be secured by a first mortgage and lien upon its properties.

ARTICLE FOURTH.

As certificates representing the entire capital stock of the railroad are at present deposited with the bankers under the "supplemental loan agreement" of March 26, 1912, the bankers are hereby authorized to cause certificates representing the 16,830 shares hereby sold to them to be transferred on the books of the railroad company to their own name and take delivery of the same; and, after stamping the same, as hereinafter provided, are further authorized to deliver certificates representing the remaining 16,170 shares to the United States Mortgage & Trust Co., as trustee, to be held by said trustee as provided in contract, "Schedule No. 1."

ARTICLE FIFTH.

The \$1,000,000 purchase price of the Republic of Nicaragua's treasury bills of 1913, as provided in "Schedule No. 2," and the \$1,000,000 purchase price of the 16,830 shares of railroad stock, as hereinbefore provided, shall be paid by the bankers, as follows:

1. Forty-seven thousand dollars by payment to the bank of the purchase price of 470 shares of its capital stock to be issued in the name of the Señor Don Pedro Rafael, financial agent of the Republic.

2. By payment to the bank, for the purposes stated in contract, "Schedule No. 3," of the sums mentioned in articles second and fifth of said schedule.

3. By payment to the bankers of such sum or sums as may be required to retire all treasury bills of 1911 still outstanding; to liquidate all sums advanced by the bankers to or for account of the Republic under the provisions of the supplemental loan agreement of March 26, 1912; to repay all expenses heretofore incurred or disbursements made by the bankers in connection with the various contracts and negotiations had between them since March 26, 1912; and to pay all expenses incident to the present contract, to the contracts executed by the Republic simultaneously herewith, and to the carrying of the same into effect. Said accounts shall include interest from the date of the respective payments.

4. The balance of said \$2,000,000 shall be deposited with the bankers in New York to the credit of the Republic, and shall be subject to drafts or checks to be drawn by the minister of finance or by the financial agent of the Republic. Of said balance \$725,000 shall be deposited forthwith and the remainder as soon as the amount thereof shall be determined upon the liquidation of the other sums hereinbefore provided to be paid.

ARTICLE SIXTH.

Simultaneously with the execution hereof, the bankers shall purchase from the National Bank of Nicaragua (Inc.) 1,530 shares of its capital stock, and shall pay therefor the sum of \$153,000.

ARTICLE SEVENTH.

Any sums hereafter paid out for the Republic by the bankers on account of cables or other expenses shall be repaid by the Republic upon presentation to its minister of finance of the corresponding accounts, accompanied by the usual vouchers; but the bankers are hereby authorized to apply to the liquidation of said accounts any moneys of the Republic which may at any time be in their hands.

ARTICLE EIGHTH.

In case the Republic shall at any time desire to dispose of all or any part of its shares of stock in the railroad company and/or in the bank, it shall first offer the same in writing to the bankers, who shall have the right, at their option, at any time within 30 days after the receipt of such offer, to purchase the same or any part thereof, at the same price and upon the same terms and conditions as may be offered by other intending bona fide purchasers. Said preferential right shall continue until said shares shall have actually been sold, paid for and delivered to others in accordance with the foregoing stipulation at prices and upon terms and conditions which the bankers, within 30 days prior to such sale, shall have declined. Said preferential right shall not apply to any sale of said shares which may be made pursuant to the terms of contract, "Schedule No. 1," for the purpose of making effective the security provided thereunder; at any such sale, however, the bankers may purchase said shares for their own account.

In order that the preferential right hereby given may be effective, the certificates of stock of said Republic in said railroad and in said bank to be deposited with the United States Mortgage & Trust Co., as trustee, as provided in contract, "Schedule No. 1," and any certificates for any further shares which may be issued to the Republic by reason of any increase in the capital stock of said railroad and/or of said bank, and any subsequent certificates issued in substitution of any of said shares, shall be appropriately stamped as being subject to the provisions of this agreement.

ARTICLE NINTH.

The option granted to the bankers to obtain from the Republic a concession for the construction and operation of a proposed railroad from some point on or near the Atlantic coast to connect with the Great Lake of Nicaragua or with the lines of Ferrocarril del Pacifico de Nicaragua is hereby canceled and terminated, and the bankers are hereby released from the obligations imposed upon them by article sixth of Schedule X of the treasury bills agreement of September 1, 1911, with reference to the survey of such proposed railroad.

ARTICLE TENTH.

So long as the bankers shall own or control 51 per cent of the capital stock of the bank, and the Republic shall continue to own 49 per cent of said capital, the directors to be elected at the annual meetings of stockholders shall be nominated; six thereof by the bankers, two by the minister of finance of the Republic, and one by the Secretary of State of the United States, and at each such annual meeting the Republic and the bankers will vote or cause to be voted the shares so held or controlled by them in favor of the persons to be so nominated, and will elect or cause to be elected such persons as directors of the bank.

In case of any vacancy in the office of director caused by death, resignation, removal or otherwise, the vacancy thus created shall be filled by a person to be nominated either by the bankers, the Republic or the Secretary of State of the United States according as the original nomination of the director so dying or withdrawing may have been made by one of them.

The director to be nominated as aforesaid by the Secretary of State of the United States shall, immediately after his election as such director, be appointed bank examiner at a monthly salary of \$200 to be paid by the bank; said director and bank examiner shall reside in the United States, but whenever he may deem proper shall, at the expense and cost of the bank, visit Nicaragua for the purpose of there examining into the operations of the bank; the result of all such examinations, together with the bank examiner's recommendations thereon, shall be confidential and shall first be reported to the board of directors, but copies of all such reports shall be filed by the bank with the minister of finance of the Republic and with the Secretary of State of the United States.

For the purpose of giving effect to the provisions of this article said provisions, so far as may be necessary or proper, shall be incorporated into the by-laws of the bank and said by-laws shall be amended accordingly.

ARTICLE ELEVENTH.

So long as the bankers shall own or control 51 per cent of the capital stock of the railroad company, and the Republic shall continue to own 49 per cent of said capital, the directors to be elected at the annual meetings of stockholders shall be nominated, six thereof by the bankers, two by the minister of finance of the Republic, and one by the Secretary of State of the United States, and at each such annual meeting the Republic and the bankers will vote or cause to be voted the shares so held or controlled by them in favor of the persons to be so nominated, and will elect or cause to be elected such persons as directors of the railroad company.

In case of any vacancy in the office of director caused by death, resignation, removal or otherwise, the vacancy thus created shall be filled by a person to be nominated either by the bankers, the Republic or the Secretary of State of the United States according as the original nomination of the director so dying or withdrawing may have been made by one of them.

The director to be nominated as aforesaid by the Secretary of State of the United States shall, immediately after his election as such director, be appointed railroad examiner at a monthly salary of \$200 to be paid by the railroad company; said director and railroad examiner shall reside in the United States, but whenever he may deem proper shall, at the expense and cost of the railroad company, visit Nicaragua for the purpose of there examining into the operations of the railroad; the result of all such examinations, together with the railroad examiner's recommendations thereon, shall be confidential and shall first be reported to the board of directors, but copies of all such reports shall be filed by the railroad company with the minister of finance of the Republic and with the Secretary of State of the United States.

For the purpose of giving effect to the provisions of this article, said provisions, so far as may be necessary or proper, shall be incorporated into the by-laws of the railroad company; the number of directors shall be increased from seven, the present number, to nine, and the by-laws shall be amended accordingly.

ARTICLE TWELFTH.

The bank examiner and railroad examiner mentioned in articles tenth and eleventh shall be one and the same person, and such person shall continue to act in those capacities and as director of the bank and of the railroad company, respectively, so long only as the Republic shall continue to own 49 per cent of the capital stock of said corporations. Whenever the Republic shall cease to own said amount of stock in either of said corporations, the person then acting as examiner therefor shall cease to act both as such examiner and as a member of its board of directors, and the Republic shall thereupon procure his resignation, as also the resignation of the two other directors of such board to be nominated by the Republic as hereinbefore provided.

ARTICLE THIRTEENTH.

The bankers shall be liable only for the payment of the sums hereinbefore provided, and they shall not be liable for the proper application or disposal of such sums.

The bankers shall at all times be free from liability in acting upon any notice, request, consent, certificate, paper, or other document believed by them to be genuine and to be signed by the person or persons purporting to sign the same.

ARTICLE FOURTEENTH.

Any notice under this agreement by the bankers to the Republic shall be in writing, addressed "El Ministro de Hacienda de la Republica de Nicaragua," and shall be deemed to have been duly given if delivered at the legation of the Republic in Washington, D. C., or at the consulate of the Republic in the city of New York, or if deposited in the mails inclosed in a sealed, postage-prepaid package, addressed as above to Managua, Nicaragua. Service of such notice shall be deemed complete as of the date of such delivery or as of the date of such deposit in the mails. In each case, however, a duplicate of such notice shall be delivered to the Department of State of the United States.

Any notice to the bankers shall be given in writing, addressed to Brown Bros. & Co. and J. & W. Seligman & Co., and delivered at their offices in the city of New York.

ARTICLE FIFTEENTH.

This agreement shall be deemed to be, and shall be construed as a New York contract; and time is of the essence of this agreement.' The provisions of this agreement shall apply to and in respect of the firms of bankers constituting the parties of the second part as such firms shall from time to time be constituted, without reference to any change of membership.

ARTICLE SIXTEENTH.

The preferential rights granted hereunder to the parties of the second part are intended for their joint benefit, and in each case such rights shall be exercised jointly by both firms, except that, if in the case of any particular preferential right either of said firms shall elect not to avail itself thereof, the same may be exercised by and shall inure to the benefit of the other firm.

ARTICLE SEVENTEENTH.

The Republic grants to the bankers the right to sell, assign, and convey to any person, company or companies, excepting to foreign governments, all or any part of the rights granted or secured to them hereunder.

ARTICLE EIGHTEENTH.

Within 10 days from the date hereof the Republic shall file with the Department of State of the United States of America an original executed counterpart of this contract.

ARTICLE NINETEENTH.

Upon the execution hereof the originals of this contract shall be deposited with Curtis, Mallet-Prevost & Colt, of No. 30 Broad Street, New York, in escrow, to be delivered by them, one to Senor don Pedro Rafael Cuadra, three to the bankers, and one, in accordance with article eighteenth above, to the Department of State of the United States, when and as soon as a decree approving this contract sufficient in the opinion of said Curtis, Mallet-Prevost & Colt shall have been made by the executive of the Republic and deposited with the National Bank of Nicaragua (Inc.), in Managua, and the latter shall have notified the bankers by cable of the making and deposit of such decree; provided, however, that such decree shall be made and deposited and notice thereof received within seven days from the date hereof or within such further period as the parties hereto may agree. If such executive decree be not made and deposited and notice thereof received by cable as aforesaid within said seven days or within such further period as the parties hereto may agree, this agreement shall be null and void and shall be canceled by said Curtis, Mallet-Prevost & Colt.

In witness whereof, the Republic has caused this contract to be subscribed on its behalf by Senor don Pedro Rafael Cuadra, minister of finance and financial agent of Nicaragua, and said Brown Bros. & Co. and said J. & W. Seligman & Co. have hereto set their hands and seals the day and year first above written.

This contract is executed in quintuplicate.

PEDRO RAF. CUADRA,
Minister of Finance and Financial Agent of the Republic of Nicaragua.

BROWN BROS. & Co. [SEAL.]
J. & W. SELIGMAN & Co. [SEAL.]

[Schedule No. 1.]

Agreement, made at the city of New York this 8th day of October, 1913, between the Republic of Nicaragua, hereinafter called the "Republic," party of the first part, and United States Mortgage & Trust Co., a corporation organized under the laws of the State of New York, hereinafter called the "trustee," party of the second part, witnesseth:

Whereas for the purposes of providing for the payment of its obligations, of insuring the stability of its currency system, and other purposes, the Republic proposes to create and issue its treasury bills to the aggregate principal amount of \$1,060,000 United States gold, to be secured as hereinafter provided; and

Whereas the execution of this agreement and the issue of bills herein described has been duly authorized by the Republic and all action has been taken necessary to make said bills the legal obligations of said Republic; and

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Whereas the Republic desires the United States Mortgage & Trust Co. to act as trustee under this agreement:

Now, therefore, in consideration of the premises and of the mutual covenants and undertakings hereinafter contained, it is hereby agreed as follows:

ARTICLE FIRST.

The treasury bills.

SECTION 1. The Republic shall issue its bills to the aggregate principal of \$1,060,000 United States gold, which shall be designated and known as "Republic of Nicaragua treasury bills of 1913" (hereinafter for brevity called the "bills").

SEC. 2. The bills shall be in denominations of \$5,000 and \$10,000 each; shall be dated the 1st day of October, 1913; shall be payable in gold coin of the United States of the present standard of weight and fineness, on the 1st day of October, 1914, without interest; and on and after the 1st day of January, 1914, shall be subject to redemption at the option of the Republic at a premium of 1 per cent upon notice as hereinafter provided.

SEC. 3. The bills shall be payable at the offices of either Brown Bros. & Co. or J. & W. Seligman & Co. in the city of New York; or at the option of the holder, at the offices of Brown, Shipley & Co. or Seligman Bros., in London, England, at the fixed rate of exchange of \$4.85 to the pound sterling; or at the option of the holder, at the office of Seligman Freres & Cie., in Paris, France, at the fixed rate of exchange of 5 francs and 21 centimes to the dollar.

SEC. 4. The bills shall be in substantially the following form and of substantially the following tenor and purport:

No.

\$.....

United States gold.

REPUBLIC OF NICARAGUA.

TREASURY BILL OF 1913.

NEW YORK, October 1, 1913.

One year from date (fixed) the Republic of Nicaragua, for value received, promises to pay to, or order, the sum of dollars (\$.....) in gold coin of the United States of America, at the office of either Brown Bros. & Co. or J. & W. Seligman & Co., in the city of New York; or at the option of the holder, at the office of either Brown, Shipley & Co. or Seligman Bros. in London, England, at the fixed rate of exchange of \$4.85 to the pound sterling; or at the office of Seligman Freres & Cie. in Paris, France, at the fixed rate of exchange of 5 francs 21 centimes to the dollar.

This bill is issued in pursuance of and subject to an agreement between the Republic of Nicaragua and United States Mortgage & Trust Co., of New York, dated, 1913.

.....
Minister of Finance and Financial Agent.

Authenticated as a bill described in the within-mentioned agreement dated, 1913.

UNITED STATES MORTGAGE & TRUST Co., *Trustee,*

By

SEC. 5. The bills shall be signed in the city of New York by the minister of finance and financial agent of the Republic.

SEC. 6. Each bill shall bear thereon a certificate substantially in the form as shown in section 4 above, which shall be signed by the trustee, authenticating such bill; no bill shall be valid without such certificate so signed; and such certificate shall be conclusive evidence that the bill so certified has been duly issued in pursuance of this agreement and that the holder is entitled to the benefits thereof. Bills to the amount of said issue shall be signed by the minister of finance and financial agent of the Republic, and delivered to the trustee for certification as aforesaid, and when so certified shall be delivered by the trustee to Brown Bros. & Co. and J. & W. Seligman & Co.

SEC. 7. The loan represented by said bills shall constitute and is hereby declared to be a direct liability and obligation of the Republic irrespective of any security provided hereunder, and the Republic hereby pledges its faith and credit for the due and punctual payment of said bills and for the performance of all its undertakings hereunder.

SEC. 8. The Republic shall pay the stamp and other duties, if any, to which under the laws of the Republic this agreement is or may be subject, and the bills shall be exempt from all taxes now or hereafter established by or within the Republic. The Republic shall also pay the stamp and other duties, if any, to which under the laws of either the United States, Great Britain, or France said bills may be subject.

ARTICLE SECOND.

Security.

SECTION 1. The Republic covenants and agrees that the bills shall be and they hereby are secured as follows:

(a) By a lien or charge upon all import and export customs duties receivable by or for the Republic from and after the date of said bills; said lien or charge upon said customs duties being, however, subject to the following prior liens thereon:

(1) To the lien created in favor of certain of the 1909 bonds of the Republic by the agreement of May 25, 1912, between the Republic and the "Corporation of Foreign Bondholders."

(2) To the lien created in favor of the "Corporation of Foreign Bondholders" by the indemnity agreement between the Republic and said corporation dated October 31, 1912; and

(3) To the lien in favor of the National Bank of Nicaragua (Inc.), for insuring the stability of the currency exchange fund created by an agreement of even date herewith between the Republic and said bank.

(b) By a first lien or charge on 1,470 shares of the capital stock of the National Bank of Nicaragua (Inc.), certificates for which, duly indorsed in blank, are pledged and deposited with the trustee upon the execution hereof. Said certificates shall be in the name of the minister of finance of the Republic, or of such person or persons as he may from time to time designate; and before being deposited as aforesaid, shall be stamped as required by a contract of even date herewith between the Republic and Brown Bros. & Co. and J. & W. Seligman & Co.

(c) By a first lien or charge on 16,170 shares of the capital stock of Ferrocarril del Pacifico de Nicaragua, certificates for which shares, duly indorsed in blank, are pledged and deposited with the trustee upon the execution hereof. Said certificates shall be in the name of the minister of finance of the Republic, or of such person or persons as he may from time to time designate; and before being deposited as aforesaid shall be stamped as required by a contract of even date herewith between the Republic and Brown Bros. & Co. and J. & W. Seligman & Co.

SEC. 2. So long as no default shall exist in respect to any of the covenants, stipulations, and conditions herein or in said bills set forth on the part of the Republic to be performed, the Republic shall be entitled to receive all dividends upon the shares of stock held and pledged hereunder, and voting power upon such shares shall be exercised by such person or persons as the minister of finance of the Republic may from time to time designate. In the event, however, of any such default, the trustee shall be entitled to receive all dividends upon the shares of stock pledged hereunder, and shall hold or apply such dividends for the benefit or security of the holders of bills hereunder; and, in order that said dividends shall be paid to it for the purposes aforesaid, said trustee may at its option cause said shares of stock to be transferred to its name or that of its nominee, and when so transferred said shares shall continue to be held by said trustee under the terms of this agreement as security hereunder.

ARTICLE THIRD.

Collection of customs

The provisions of the agreement of May 25, 1912, between the Republic and the "Corporation of Foreign Bondholders" with respect to the collection of customs, are hereby ratified and confirmed; and it is hereby agreed that, so long as any of the bills shall remain unpaid, all customs duties, both on exports and imports, receivable by or for the Republic, shall be collected and administered by the collector general of customs, as set forth in article fifth of the treasury bills agreement of September 1, 1911, between the Republic of Nicaragua and Brown Bros. & Co. and J. & W. Seligman & Co., under which the United States Mortgage & Trust Co. has heretofore acted as trustee. The provisions of sections 2, 3, and 4 of said article fifth of said treasury bills agreement are hereby continued in force during the life of the bills issued hereunder, and are hereby incorporated into and made applicable to this agreement; provided, however, that so long as there shall be no default hereunder

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any amounts so collected not required for the purposes of the three agreements mentioned in article second, section 1, subdivision (a) above, shall be payable to the Republic by deposit to its credit with the National Bank of Nicaragua (Inc.).

ARTICLE FOURTH.

Enforcement of security upon default.

In case default shall be made in the payment of any bill (or in case default shall be made in the due performance of any of the covenants of the Republic hereunder and any such last-mentioned default shall continue for a period of 30 days after written notice thereof and demand of performance), then and in each such case the trustee shall forthwith notify the collector general of customs of such default, and thereafter all import and export customs duties, after the payment of the expenses attending the collection of the same, and after setting aside such amounts, if any, as may be required by the agreements mentioned in article second, section 1, subdivision (a) above, and so long as any of the bills, or any interest thereon, remain unpaid, shall from time to time, at least monthly, be remitted to the trustee. The amounts so to be received by the trustee shall from time to time be applied by it as follows:

1. To the payment of all expenses, liabilities, and advances made or incurred by the trustee in the conduct and enforcement of the trusts hereby created, including a reasonable compensation to the trustee, its agents, attorneys, and counsel.

2. To the payment from time to time, ratably among the holders of the bills hereby secured, of the amounts owing and unpaid upon such bills, without preference of any bill over any others, until the whole amount owing or unpaid upon such bills, with interest at the rate of 6 per cent per annum from and after the date of their maturity, shall have been paid.

Notwithstanding the provisions hereinbefore contained with reference to the disposition and application of the customs revenues in case of default as aforesaid, the trustee may, and if thereunto requested by the holders of a majority in amount of the bills issued and outstanding hereunder, and if indemnified to its satisfaction for its costs and expenses in so doing, shall proceed to sell the shares of stock pledged hereunder: *Provided, however,* That at the date of such sale or sales the whole amount owing or unpaid upon the bills hereby secured, with interest at the rate of 6 per cent per annum from and after the date of their maturity, and the compensation and expenses of the trustee shall not have been liquidated: *Provided also,* That the shares of stock of the National Bank of Nicaragua (Inc.), shall be first sold, but not until the expiration of six months after such default: *And provided further,* That the shares of Ferrocarril del Pacifico de Nicaragua shall be sold second, but not until the expiration of one year after such default.

The sale or sales to be made hereunder shall be at public auction at such place in the city of New York and at such time and upon such terms as the trustee may specify.

Notice of any such sale shall state the time when and the place where the same is to be held, and shall contain a brief general description of the securities to be sold. Such notice shall be published twice a week for two successive weeks prior to such sale in a daily newspaper published in the city of New York, and a copy of said notice shall, at least two weeks prior to the date of sale, be sent to the Republic, as hereinafter provided.

The trustee shall have the power, in his discretion, to adjourn any such sale from time to time as to the whole or any part of the property to be sold, and if so adjourned, shall have power to make such sale upon the date to which the adjournment is had, without further notice of the time or place to which the sale may be so adjourned.

Upon the completion of any such sale or sales, the trustee shall transfer and deliver such of the shares of stock as shall have been sold to the purchaser or purchasers thereof, and the same shall thereupon be freed and discharged from the trusts and lien hereby created. The trustee and its successors are hereby appointed true and lawful attorney or attorneys irrevocable of the Republic, in its name to make, execute, and deliver to such purchaser or purchasers such good and sufficient assignments, transfers, or other instruments as may be necessary or proper to vest in such purchaser or purchasers full and complete title and ownership of and to the shares of stock so sold.

The receipt of the trustee for the purchase money shall be sufficient discharge for the purchaser or purchasers of any of said shares for his or their purchase money.

Upon any such sale, the trustee or any holder of bills hereunder, or any other person, may bid for and may purchase the stock offered for sale or any part thereof.

The proceeds of any sale made as aforesaid, in so far as the amounts theretofore received by the trustee from the collector general of customs as hereinbefore provided, or the amounts realized under any earlier sale of securities hereunder, may have been insufficient for the purpose, shall be applied as follows:

1. To the payment of the costs and expenses of such sale, including a reasonable compensation to the trustee, its agents, attorneys, and counsel, and of all expenses, liabilities and advances made or incurred by the trustees in the conduct and enforcement of the trusts hereby created;

2. To the payment of the whole amount then owing or unpaid upon the bills hereby secured, with interest at the rate of 6 per cent per annum from and after the date of their maturity, or in case of the insufficiency of such proceeds for that purpose, then to the payment ratably of the amounts owing and unpaid upon such bills, without preference of any bill over any others; and

3. To the payment of the surplus, if any, to the Republic or to whomsoever shall be lawfully entitled to receive the same.

ARTICLE FIFTH.

Redemption of bills.

On and at any time after the 1st day of January, 1914, the Republic, at its option, may redeem all or any of the bills at that time outstanding, by paying the principal amount of such bills, together with the premium of 1 per cent thereon, provided that the Republic shall by publication in one or more newspapers of general circulation in each of the cities of New York, London, and Paris, respectively, twice a week for one month immediately preceding the date of such redemption, have given prior notice of its intention to so redeem; such notice shall specify the date of redemption, and if part only of the bills are to be redeemed, shall designate the numbers of such bills.

In case the Republic shall desire to redeem, as aforesaid, all bills outstanding, it may deposit with the trustee the amount necessary for such redemption, together with proof that said notice of redemption has been given by publication in the manner aforesaid; and in that case, upon the payment to the trustee of all costs, charges, and expenses to which it may be entitled, the trustee shall cancel and satisfy this agreement. If such deposit and payment shall be made as aforesaid, said deposit as between the Republic and the holders of said bills shall be deemed to be a payment of said bills.

After the shares of stock pledged hereunder shall be thus released from the lien of this agreement, the certificates representing said shares, stamped as required by a contract of even date herewith between the Republic and Brown Bros. & Co. and J. & W. Seligman & Co., shall be delivered to the minister of finance of the Republic, or to such person or persons as he in writing may direct.

ARTICLE SIXTH.

Defeasance.

Whenever the Republic shall pay all bills secured hereunder or shall provide for such payment by depositing with the trustee the entire amount due thereon, if the Republic shall at the same time pay or cause to be paid all other sums payable hereunder, then and in such case the right, title, and interest of the trustee under this agreement shall cease and determine, and the trustee shall deliver to the minister of finance of the Republic, or to such person or persons as he in writing may designate, all securities pledged hereunder, stamped as aforesaid, and shall execute proper instruments acknowledging satisfaction.

ARTICLE SEVENTH.

Concerning the trustee.

SECTION 1. The Republic hereby appoints the United States Mortgage & Trust Co. trustee for the holders of bills, with full power to appoint agents in the United States or Europe, or elsewhere, to act for it in respect thereof, and the United States Mortgage & Trust Co. hereby accepts such appointment.

SEC. 2. The trustee may at any time instead of acting personally, employ and appoint such agent or agents and attorney or attorneys as it may deem desirable.

SEC. 3. The trustee shall be entitled to reasonable compensation for all services rendered by it in the execution of the trusts hereby created, and the Republic agrees

from time to time to pay such compensation and to reimburse the trustee, with interest, for all liability and expenses, including counsel fees, which it may have incurred hereunder.

SEC. 4. The trustee shall not be answerable for the default or misconduct of any agent, attorney, bank, or banker appointed or selected by it in pursuance hereof if such agent, attorney, bank, or banker shall have been selected with reasonable care; or for anything whatever in connection with this trust except for its own willful misconduct.

SEC. 5. The trustee may at any time and from time to time take such steps as it may deem proper for the enforcement of the provisions hereof and for the protection of the rights of the holders of bills hereunder.

SEC. 6. The trustee shall have, in addition to the rights, powers, and duties conferred by law and otherwise by this instrument, the following rights, powers, and duties:

(a) It shall from time to time receive all such sums as shall be paid to it in accordance with this agreement, and shall use and apply in the manner herein authorized the moneys so received.

(b) It may, subject to the terms of this agreement, act in accordance with the written order of the minister of finance of the Republic; and the order of the the minister of finance as aforesaid shall be full protection to the trustee for action in accordance therewith.

(c) The trustee shall only be chargeable for such moneys as may be actually received by it in the city of New York from the Republic or for its account.

(d) All representations and recitals contained in this agreement and in the bills are made by and on behalf of the Republic, and the trustee is in no way responsible therefor or for any statement therein contained or for any action or thing by it done by reason of any representation made by the Republic or by any of its agents or representatives. The trustee shall be protected in acting upon any notice, request, consent, certificate, bill, or other paper or document believed by it to be genuine and to be signed by the person or persons purporting to sign the same. It may advise with legal counsel, and the trustee shall incur no liability for any action taken or suffered hereunder by the trustee in accordance with the opinion of such counsel. The trustee shall incur no responsibility in respect of the execution or validity hereof or of said bills, nor in respect of the genuineness, validity, or value of any shares of stock deposited with it, and makes no representations in respect thereof, nor shall it incur any responsibility, except as herein expressly provided, in respect of the disposition of said bills or the application of the proceeds thereof. The trustee shall incur no responsibility by reason of the failure of the Republic or of any other person or persons mentioned herein to carry out or perform any covenant, agreement, or provision of this contract.

SEC. 7. The trustee may withdraw and resign by giving notice to the Republic of such intention, specifying the date when it is desired such withdrawal shall take effect, which shall not be less than one month after such notice to the Republic shall have been given, unless shorter notice shall be accepted by the Republic. In case the trustee shall resign, a successor shall, with the approval of the Secretary of State of the United States, be appointed by the Republic by designation in writing under the hand of the minister of finance of the Republic; a counterpart thereof shall be delivered to such successor and a counterpart filed in the Department of State of the United States of America.

Any corporation into which the trustee or its successor in the trust may be merged or any corporation resulting from any merger or consolidation to which the trustee or its successor or successors shall be a party, shall be its successor in the trust hereunder without the execution or filing of any paper or any further act on the part of any of the parties hereto, anything herein to the contrary notwithstanding.

ARTICLE EIGHTH.

Notices.

Any statement, notice, request or other communication under this contract from the trustee to the Republic shall be in writing, addressed "El Ministro de Hacienda de la República de Nicaragua," and shall be deemed to have been duly given if delivered at the legation of the Republic in Washington, D. C., or at the consulate of the Republic in the city of New York, or if deposited in the mails inclosed in a sealed, postage-prepaid package, addressed as above to Managua, Nicaragua. Service of such notice or other communication shall be deemed complete as of the date of such delivery or as of the date of such deposit in the mails; in each case, however, a

duplicate of such statement, notice, request, or other communication shall be delivered to the Department of State of the United States.

Any notice or other communication from the Republic to the trustee shall also be in writing, and shall be sufficiently given if addressed to such trustee and delivered at its office in the city of New York.

ARTICLE NINTH.

General provisions.

SECTION 1. This contract shall bind and is for the exclusive benefit of the parties hereto and the holders of the bills issued hereunder.

SEC. 2. This contract shall be deemed to be, and shall be construed as, a New York contract made for the benefit and security of the holders from time to time of the bills issued hereunder; and time is of the essence of this agreement.

SEC. 3. This contract has been submitted to the Secretary of State of the United States for his approval, and it is hereby agreed that, within 10 days from the date hereof, the Republic shall file with the Department of State of the United States of America an original executed counterpart of this contract.

SEC. 4. Upon the execution hereof the originals of this contract as well as the bills therein described executed by the minister of finance shall be deposited with Curtis, Mallet-Prevost & Colt, No. 30 Broad Street, New York City, in escrow, to be delivered by them, one original to Senor don Pedro Rafael Cuadra, one to the United States Mortgage & Trust Co., one to Brown Bros. & Co., one to J. & W. Seligman & Co.; and one, in accordance with section 3 above, to the Department of State of the United States, and the bills to be delivered to the United States Mortgage & Trust Co. for certification, when and as soon as a decree approving this contract sufficient in the opinion of said Curtis, Mallet-Prevost & Colt shall have been made by the executive of the Republic and deposited with the National Bank of Nicaragua (Inc.), in Managua, and the latter shall have notified Brown Bros. & Co. and J. & W. Seligman & Co. by cable of the making and deposit of such decree: *Provided, however*, That such decree shall be made and deposited and notice thereof received within seven days from the date hereof or within such further period as the parties hereto may agree. If such executive decree be not made and deposited and notice thereof received by cable as aforesaid within said seven days or within such further period as the parties hereto may agree, this agreement and said bills shall be null and void and shall be canceled by said Curtis, Mallet-Prevost & Colt.

I witness whereof the Republic has caused this agreement to be subscribed on its behalf by Señor Don Pedro Rafael Cuadra, minister of finance and financial agent of the Republic, and the United States Mortgage & Trust Co. has caused this agreement to be subscribed in its name by one of its vice presidents, and its corporate seal to be hereunto affixed and attested by one of its assistant secretaries, the day and year first above written.

This contract is executed in quintuplicate.

PEDRO RAF. CUADRA,

Minister of Finance and Financial Agent of the Republic of Nicaragua.

[SEAL.]

UNITED STATES MORTGAGE & TRUST Co.,

By CARL G. RASMUS, *Vice President.*

Attest:

V. EHRLICHER, *Assistan Secretary.*

[Schedule No. 2.]

Agreement, made at the city of New York, this 8th day of October, 1913, between the Republic of Nicaragua, hereinafter called the "Republic," party of the first part, and Brown Bros. & Co. and J. & W. Seligman & Co., copartnerships doing business in the city of New York, hereinafter called the "bankers," parties of the second part, witnesseth:

Whereas for the purpose of liquidating certain indebtedness of the Republic, of providing further funds to insure the stability of the currency of the Republic, of increasing the capital of the National Bank of Nicaragua (Inc.), of providing for the Republic's current expenses, and for other purposes, the Republic wishes to sell gold treasury bills about to be issued, to be known as "Republic of Nicaragua treasury bills of 1913," representing an aggregate principal amount of \$1,060,000 United States gold;

Now, therefore, in consideration of the premises and of the mutual covenants and undertakings hereinafter contained, and in consideration of the covenants and under-

takings by the Republic in various other contracts executed simultaneously herewith, it is hereby agreed as follows:

ARTICLE FIRST.

The Republic shall forthwith issue its gold treasury bills to the aggregate principal amount of \$1,060,000, United States gold, under a contract of even date herewith between the Republic and the United States Mortgage & Trust Co., as trustee, a copy of which contract, marked "Schedule No. 1," is hereto annexed and made a part hereof, and shall cause said bills to be certified by the trustee as in said contract provided.

ARTICLE SECOND.

The Republic hereby sells, assigns, and transfers to the bankers, and the bankers hereby purchase the entire issue of said treasury bills for the sum of \$1,000,000, United States gold, to be paid upon the delivery of said bills.

ARTICLE THIRD.

This agreement shall be deemed to be and shall be construed as a New York contract.

ARTICLE FOURTH.

This contract has been submitted to the Secretary of State of the United States for his approval, and it is hereby agreed that within 10 days from the date hereof the Republic shall file with the Department of State of the United States of America an original, executed counterpart of this contract.

ARTICLE FIFTH.

Upon the execution hereof the originals of this contract shall be deposited with Curtis, Mallet-Prevost & Colt, No. 30 Broad Street, New York City, in escrow, to be delivered by them, one to Senor don Pedro Rafael Cuadra, three to the bankers, and one, in accordance with article fourth above, to the Department of State of the United States, when and as soon as a decree approving this contract sufficient in the opinion of said Curtis, Mallet-Prevost & Colt shall have been made by the executive of the Republic and deposited with the National Bank of Nicaragua (Inc.) in Managua, and the latter shall have notified the bankers by cable of the making and deposit of such decree; provided, however, that such decree shall be made and deposited and notice thereof received within seven days from the date hereof or within such further period as the parties hereto may agree. If such executive decree be not made and deposited and notice thereof received by cable as aforesaid within said seven days or within such further period as the parties hereto may agree, this agreement shall be null and void and shall be canceled by said Curtis, Mallet-Prevost & Colt.

In witness whereof the Republic has caused this contract to be subscribed on its behalf by Senor don Pedro Rafael Cuadra, minister of finance and financial agent of the Republic of Nicaragua, and said Brown Bros. & Co. and said J. & W. Seligman & Co. have hereunto set their hands and seals the day and year first above written.

This contract is executed in quintuplicate.

PEDRO RAF. CUADRA,
Minister of Finance and Financial Agent of the Republic of Nicaragua.
 BROWN BROS. & Co. [SEAL.]
 J. & W. SELIGMAN & Co. [SEAL.]

[Schedule No. 3.]

Agreement made at the city of New York this 8th day of October, 1913, between the Republic of Nicaragua, hereinafter called the "Republic," party of the first part, and National Bank of Nicaragua (Inc.), hereinafter called the "bank," party of the second part, witnesseth:

Whereas the law of March 20, 1912, of the Republic, hereinafter called the "monetary law," authorized the bank as the agent of the Republic to issue bank notes in exchange for the national currency then in circulation; and

Whereas said monetary law provided for the setting aside of certain moneys, which, together with any additions or increments thereto, should constitute a fund called the "exchange fund"; and

Whereas, in order to further guarantee the stability of the currency it is deemed expedient to increase said exchange fund and to have the same administered by said bank;

Now, therefore, for and in consideration of the premises and of the mutual covenants and undertakings hereinafter contained, it is hereby agreed as follows:

First. The exchange fund mentioned in article ninth of the monetary law, and all replenishments, additions, and increments thereto, shall hereafter be held and administered by the bank, and shall be deposited in special accounts in New York or London, apart from the funds of the bank.

Second. The Republic shall forthwith pay, or cause to be paid, to the bank the sum of \$350,000 as an addition to said exchange fund.

Third. If whenever, and as often as the exchange fund deposited in New York and London shall fall below \$100,000, United States gold, the same shall be replenished as hereinafter provided until such exchange fund shall amount to \$200,000, United States gold.

Said replenishment shall be effected as follows:

Whenever said exchange fund deposited in New York and London as aforesaid shall fall below \$100,000, United States gold, the bank shall notify the minister of finance of the Republic and the collector general of customs; thereafter and until said fund so deposited shall have been increased to \$200,000, United States gold, the collector general of customs shall, at least monthly, after paying the expenses attending the collection of customs, after remitting to New York or Europe the sums required for the service of the 1909 bonds of the Republic, as required by the agreement of May 25, 1912, between the Republic and the Corporation of Foreign Bondholders, and after setting aside such sums, if any, as may be required by the indemnity agreement between the Republic and said Corporation of Foreign Bondholders, dated October 31, 1912, deposit with the bank as additions to the exchange fund a sum equal to 25 per cent of the total gross amount of said customs.

This provision for the replenishment from time to time of the exchange fund shall be, and is hereby, made a lien and charge on the customs of the Republic subsequent only to the lien established in favor of the holders of 1909 bonds by the agreement of May 25, 1912, above referred to, and to the lien in favor of the Corporation of Foreign Bondholders in accordance with the indemnity agreement of October 31, 1912, above mentioned.

As the bank notes issued under the monetary law have been and will continue to be issued by the bank solely as the agent of the Republic, the Republic will hold the bank harmless against any claims that may be made against it by reason of such notes.

Fourth. The Republic shall forthwith pay or cause to be paid to the bank all sums on deposit with the United States Mortgage & Trust Co. under the provisions of an agreement known as the "Treasury bills agreement," dated September 1, 1911, between the Republic and Brown Bros. & Co. and J. & W. Seligman & Co., and also all sums which may be remitted to said trust company for account of the Republic or as part of the exchange fund; and the bank shall thereupon hold and dispose of said sums upon the same trusts and for the same purposes as under existing contracts would govern their disposition in the hands of said trust company. The present agreement shall be sufficient authority to the United States Mortgage & Trust Co. to make the payments aforesaid.

Fifth. The Republic shall forthwith pay or cause to be paid to the bank the following sums:

1. Ten thousand dollars as compensation for the bank's services in connection with the conversion of the national currency from August 1, 1913, to July 31, 1914, inclusive.

2. Sixty thousand dollars or such other sum as may still be owing from the Republic to the bank on account of the loan of \$1,500,000 which became due on February 8, 1913, or on account of any other transaction between the Republic and the bank.

3. Thirty thousand dollars or such other sum as may be owing from the Republic to the bank on account of advances recently made for army pay rolls and other Government expenses.

Sixth. The collection of the internal revenue of the Republic, at present in charge of the bank, shall be resumed by the Republic and the payment of the interest on the internal-revenue bonds of the Republic shall no longer be made through the bank.

Seventh. This agreement shall be deemed to be and shall be construed as a New York contract.

Eighth. Within 10 days from the date hereof the Republic shall file with the Department of State of the United States of America an original executed counterpart of this contract.

Ninth. Upon the execution hereof the originals of this contract shall be deposited with Curtis, Mallet-Prevost & Colt, No. 30 Broad Street, New York City, in escrow, to be delivered by them, one to Senor don Pedro Rafael Cuadra, one to National Bank of Nicaragua (Inc.), one to Brown Bros. & Co., one to J. & W. Seligman & Co., and one, in accordance with eighth above, to the Department of State of the United States, when and as soon as a decree approving this contract sufficient in the opinion of said Curtis, Mallet-Prevost & Colt shall have been made by the executive of the Republic and deposited with National Bank of Nicaragua (Inc.), in Managua, and the latter shall have notified Brown Bros. & Co., and J. & W. Seligman & Co., by cable of the making and deposit of such decree; provided, however, that such decree shall be made and deposited and notice thereof received within seven days from the date hereof, or within such further period as the parties hereto may agree. If such executive decree be not made and deposited and notice thereof received by cable as aforesaid, within said seven days, or within such further period as the parties hereto may agree, this agreement shall be null and void and shall be canceled by said Curtis, Mallet-Prevost & Colt.

In witness whereof the Republic has caused this agreement to be subscribed on its behalf by Senor don Pedro Rafael Cuadra, minister of finance and financial agent of Nicaragua, and the National Bank of Nicaragua (Inc.), has caused this contract to be executed by its president thereunto duly authorized and its seal to be hereto affixed and attested the day and year first above written.

This contract is executed in quintuplicate.

PEDRO RAF CUADRA,
Minister of Finance and Financial Agent of the Republic of Nicaragua.

NATIONAL BANK OF NICARAGUA (INC.),
By JAMES BROWN, *President.*

[SEAL.]
Attest:

J. A. WHITAKER, *Secretary.*

[Schedule No. 4.]

Agreement, made at the city of New York this 8th day of October, 1913, between the Republic of Nicaragua, hereinafter called the "Republic," party of the first part, and Ferrocarril del Pacifico de Nicaragua, hereinafter called the "railroad company," party of the second part: witnesseth:

Whereas the parties hereto desire to provide for the payment of certain dividends by the railroad company, and to adjust and settle certain other matters hereinafter mentioned:

Now, therefore, for and in consideration of the premises and of the mutual covenants and undertakings hereinafter contained, it is hereby agreed as follows:

First. All cash earnings of the railroad on hand as of October 1, 1913, after setting aside an amount sufficient to discharge all unpaid obligations of said railroad for running expenses to that date, and all unpaid obligations for betterments and improvements up to September 11, 1913, including the items mentioned in a letter dated August 16, 1913, from Brown Bros. & Co. and J. & W. Seligman & Co. to Hon. Pedro Rafael Cuadra, minister of finance of the Republic of Nicaragua addressed to him at the Nicaraguan legation at Washington, and after payment by the Republic of such sums as may be due from it to the railroad company for services rendered or as a result of contract obligations, shall be distributed as a dividend and paid in whole to the Republic, and any additional expenditures or obligations incurred or made by the railroad for account of capital between September 11, 1913, and October 1, 1913, shall be regarded as having been made after October 1, 1913, and shall be dealt with accordingly.

Second. The Republic hereby confirms and warrants the title of the railroad to the oil tank at Corinto free from any lien or claim.

Third. The branch line from Momotombo in the direction of Matagalpa is hereby declared to be a branch of the main line within the provisions of article 1, section 1, of the concession of June 19, 1912.

Fourth. The railroad shall return to the Republic the steamer *Nicarao*, which it has been using on Lake Nicaragua. No charge shall be made by the Republic for such use, neither shall the Republic be liable for the cost of the repairs made to said steamer.

Fifth. This agreement shall be deemed to be and shall be construed as a New York contract.

Sixth. Within 10 days from the date hereof the Republic shall file with the Department of State of the United States of America an original executed counterpart of this contract.

Seventh. Upon the execution hereof, the originals of this contract shall be deposited with Curtis, Mallet-Prevost & Colt, No. 30 Broad Street, New York City, in escrow, to be delivered by them one to Senor don Pedro Rafael Cuadra, one to Ferrocarril del Pacifico de Nicaragua, one to Brown Bros. & Co., one to J. & W. Seligman & Co., and one, in accordance with Sixth above, to the Department of State of the United States, when and as soon as a decree approving this contract sufficient in the opinion of said Curtis, Mallet-Prevost & Colt shall have been made by the executive of the Republic and deposited with National Bank of Nicaragua (Inc.), in Managua and the latter shall have notified Brown Bros. & Co., and J. & W. Seligman & Co. by cable of the making and deposit of such decree; *Provided, however*, That such decree shall be made and deposited and notice thereof received within seven days from the date hereof or within such further period as the parties hereto may agree. If such executive decree be not made and deposited and notice thereof received by cable as aforesaid, within said seven days or within such further period as the parties hereto may agree, this agreement shall be null and void and shall be cancelled by said Curtis, Mallet-Prevost & Colt.

In witness whereof, the Republic has caused this agreement to be subscribed on its behalf by Senor don Pedro Rafael Cuadra, minister of finance and financial agent of Nicaragua, and Ferrocarril del Pacifico de Nicaragua has caused this concession to be executed by its president thereunto duly authorized and its seal to be affixed and attested the day and year first above written.

This contract is executed in quintuplicate.

PEDRO RAF. CUADRA,
Minister of Finance and Financial Agent of the Republic of Nicaragua.

[SEAL.]

FERROCARRIL DEL PACIFICO DE NICARAGUA,
By FREDERICK STRAUSS, *President.*

Attest:

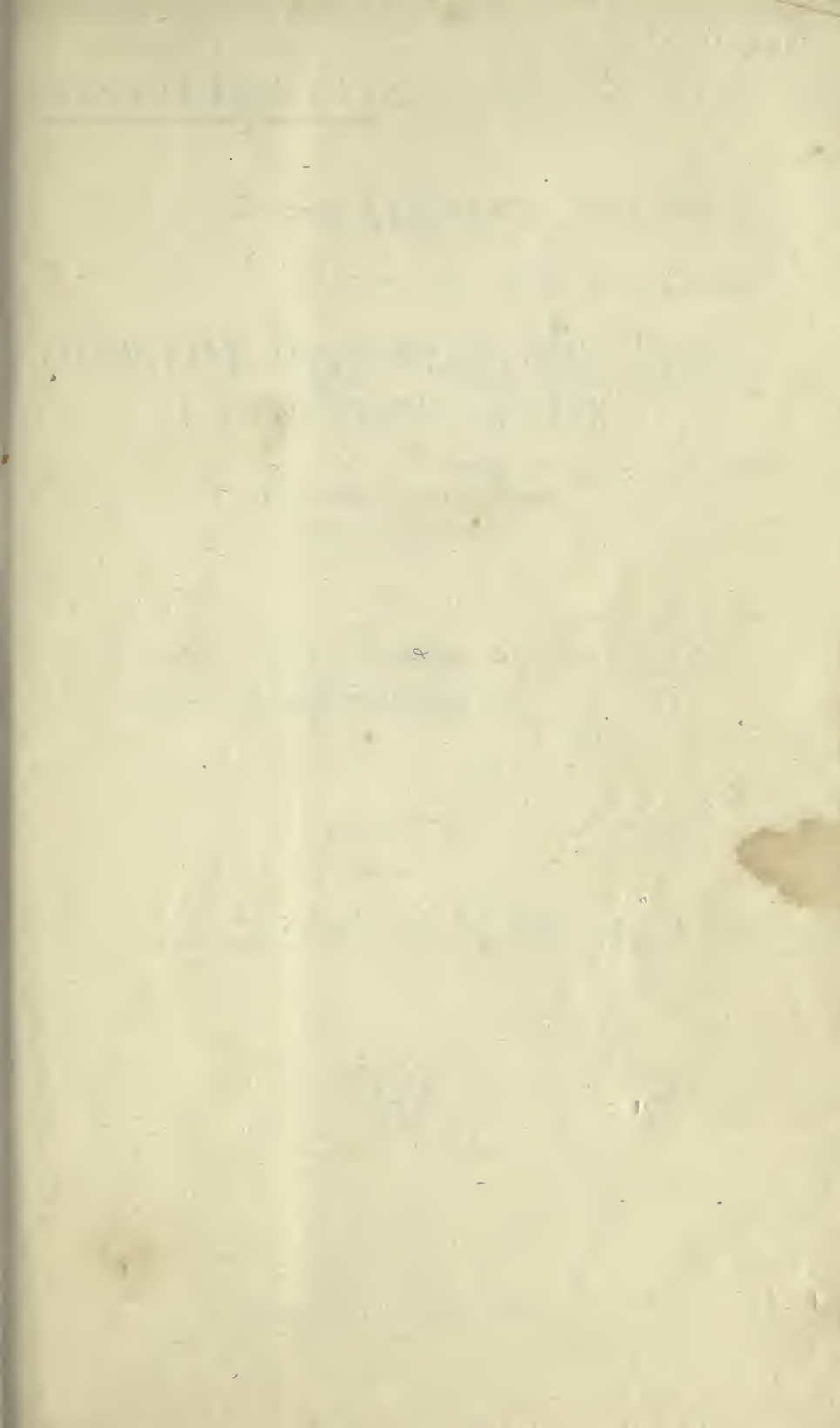
JASON A. NEILSON, *Secretary.*

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CONFIDENTIAL

HEARING

BEFORE THE

COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE

SIXTY-THIRD CONGRESS

SECOND SESSION

ON

CONVENTION BETWEEN THE UNITED STATES
AND NICARAGUA

PART 2

Printed for the use of the Committee on Foreign Relations



WASHINGTON
GOVERNMENT PRINTING OFFICE

1914

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CONVENTION BETWEEN THE UNITED STATES AND NICARAGUA.

MONDAY, JUNE 22, 1914.

COMMITTEE ON FOREIGN RELATIONS,
UNITED STATES SENATE,
Washington, D. C.

The committee met at 10 o'clock a. m., pursuant to adjournment.

Present: Senators Stone (chairman), Shively, Hitchcock, O'Gorman, Williams, Pomerene, Smith of Arizona, Saulsbury, and Smith of Michigan; also the Hon. William Jennings Bryan, Secretary of State, and Mr. Charles A. Douglas, Esq., attorney.

The CHAIRMAN. The committee will come to order. Have you anything further to say, Mr. Douglas?

STATEMENT OF CHARLES A. DOUGLAS—Continued.

Mr. DOUGLAS. Mr. Chairman and gentlemen of the committee, I do not know just where I left off, nor do I know that I have much more to say on this subject.

I will say, gentlemen, that the treaty, regardless of the true classes, or the main propositions, includes the concessions to the United States in the shape of the canal concession and the concession to build the naval base. As I take it, the treaty, as prepared and proposed, naturally divides itself into two subjects, or two propositions: One embraces the concession to the United States and the other the establishment over Nicaragua of the provisions of the Platt amendment—or what is tantamount to that—the latter being for the purpose of insuring the peace and preventing revolutions in Nicaragua, and I might say in reference to the latter that the Platt amendment includes really three different divisions of the treaty, the third, fourth, and fifth clauses; that Nicaragua would like very much to have this country accept the responsibilities attaching to putting those three clauses into the treaty. She feels, as I said the other day, that peace can be preserved and property rights safeguarded and revolutions prevented by this country permitting the provisions of the Platt amendment to be read into this treaty.

Nicaragua feels, and it seems to me that all of us feel, that in the event there is a revolution there the United States is going to stop the revolution anyway, as she has been compelled to do in a measure and to an extent heretofore, and we feel it is better for the United States to have a clear and undisputed right to go there than to leave it open to question and debate, with resulting friction from time to time between Nicaragua and the United States. Nicaragua asks the United States to consent, and Nicaragua shall declare, that the United States shall have the right to intervene for the

preservation of life, liberty, and property, and the right of suffrage, but there is no obligation placed upon Nicaragua by the obligations of this treaty at all. She can refuse to do so if she wants to.

Senator O'GORMAN. You say Nicaragua can?

Mr. DOUGLAS. I mean the United States can. I mean there is no obligation placed by the terms of the proposed treaty on the United States to intervene if she does not see proper to do so.

Senator O'GORMAN. It amounts to permission?

Mr. DOUGLAS. Simply, permission upon the part of Nicaragua to the United States to do it.

Senator WILLIAMS. Are you not mistaken about that, that we assume no responsibility in the treaty? So far as the Government of Nicaragua is concerned, of course no obligation would be placed upon her necessarily. In any particular case write to every nation in Europe could insist we should go ahead and guarantee the stability, peace, etc., and protection for their citizens, and because by this agreement we, in a way, assume a protectorate, and having assumed it we prevent them from resorting to the rights which they have under international law, with which rights the Monroe doctrine has nothing in the world to do—the right to intervene for the protection of their subjects.

Mr. DOUGLAS. It seems to us that that is practically the situation now anyway. I will give you an illustration—

Senator WILLIAMS. Well, that is practically the situation now. You are right about that, but it is only because this force of marines has been placed there without any warrant by the legislative branch of our Government, and we are kept there without any warrant.

Mr. DOUGLAS. I do not take it that the presence of a hundred marines in Nicaragua has the slightest thing to do with the question of a real or imaginary obligation upon the part of the United States to look after the affairs in a general way in Nicaragua.

I will give you an illustration of it: There are claims now of the English Government and the German Government and the Italian Government—all those Governments—against Nicaragua and they have refused to have their claims submitted to the Mixed Claims Commission and are bringing pressure to bear upon the Government of Nicaragua to pay those claims, and it has reached the stage almost of threats to seize the territory or do something in Nicaraguan affairs.

Senator SMITH of Michigan. I wish you would name the claims.

Mr. DOUGLAS. I do not know the number of the claims.

Senator SMITH of Michigan. Is it the Weist claim that Germany is interested in?

Mr. DOUGLAS. I do not remember the names of the claims.

Senator SMITH of Michigan. The Weist claim?

Mr. DOUGLAS. I do not know the names of the claimants at all.

Secretary BRYAN. It is something over a million altogether. There are several—German, French, Italian, and English.

Senator SMITH of Michigan. I understand that.

Senator POMERENE. Mr. Secretary, do you mean by that that all of those outstanding claims are held by the citizens of the various Governments or simply by the German Government?

Mr. DOUGLAS. By the various Governments.

Secretary BRYAN. All of them. Germany is one of the smallest. Italy is the largest.

Senator POMERENE. May I ask what the nature of the claims is?

Secretary BRYAN. They arose, as I understand it, as war claims in the revolution. They represent property claims.

Mr. DOUGLAS. In some instances they represent money borrowed from the citizens of Germany.

Senator SMITH of Michigan. It involves the question of the destruction of certain concessions that were made to English citizens and German citizens and Italian citizens. The German claim grows out of a very valuable concession which was given to Weist & Co. of Germany for the purpose of the construction of a railroad which was partially undertaken. Now, those claims are being pressed upon the State Department with some vigor, as I understand it, but they do not submit to the mixed claims commission, because the mixed claims commission is a strongly partisan commission. It is composed of citizens of our country and of Nicaragua, and they have not considered those claims. Where their rights are to be found it is difficult now to say, but to ignore them means to invite trouble. I think you agree with that, Mr. Secretary?

Secretary BRYAN. Certainly. It is understood that out of this \$3,000,000 they are going to take up, or to clear up, those claims of other nations.

Senator SMITH of Michigan. That would not go very far with claims that are already proven.

Secretary BRYAN. Oh, yes; it will take only something over one-third of \$3,000,000; it is \$1,200,000.

Senator SMITH of Michigan. But under the statement of the minister of finance—which evidently does not include the claims of Germany, particularly—out of these claims there is now a necessity for at least \$5,000,000 to put them beyond actual need, and that does not include the German claims.

Secretary BRYAN. Well, I am speaking now of what they call the foreign claims. As the figures were given to me they amount to between eleven and twelve hundred thousand dollars.

Senator SMITH of Michigan. I am very much afraid that this money that is proposed to be given to Nicaragua will not only not be sufficient to retire claims already adjudicated, coming very far from it, but it will not include any foreign claims of any of those Governments not yet submitted to the mixed claims commission. Now, if that is true, the amount of money involved will simply be a drop in the bucket and we would not satisfy anybody.

Mr. DOUGLAS. There is not the slightest doubt about it that \$3,000,000 will not approach the sum necessary to put Nicaragua on its feet.

Senator SMITH of Michigan. I am glad to hear you say that. That is exactly the situation.

Mr. DOUGLAS. I am sure that no one ever intended to convey the thought that it would. But the statement has been made that this money would be applied toward the debts of Nicaragua, and it is proposed only to relieve Nicaragua of the international complication growing out of these claims, to adjudicate and adjust the amount of those claims in some way and pay the foreigners' claims, other than those of Americans, out of the \$3,000,000, and I think they can be adjusted for about \$750,000.

Senator WILLIAMS. Ought that not to be expressly stated in the treaty to get rid of this foreign-claims complication?

Secretary BRYAN. That should be done.

Mr. DOUGLAS. I do not think there is any objection to that at all.

Senator SMITH of Michigan. This statement of the minister of finance shows an aggregate indebtedness of \$13,000,000. It says:

This statement does not include the unpaid judgments of the mixed claims commission, nor does it include the amounts that may be yet ordered to be paid by the judgments of the mixed claims commission.

It further says that the last budget of the Government, which is absolutely essential, is in the neighborhood of \$3,000,000. They give there the sources of revenue to meet these obligations and say:

The debts of pressing nature really amount to about \$5,000,000—

* That does not include the Ethelburger claim, which is \$6,000,000, and several other claims of large amount.

The balance of the indebtedness of the Republic over and above the \$5,000,000 and inclusive of the Ethelburger debt do not require immediate financing. To put Nicaragua on the basis of any sort of permanency, therefore, \$5,000,000 is necessary.

That is the statement of Mr. Cuadra, the minister of finance. If you are going to take a bite at that cherry, and only a bite at it, you will simply destroy their credit, and larger debts will have to be contracted, and no sources of revenue.

Mr. DOUGLAS. I do not exactly apprehend what trouble you have reference to, and how it enters generally into the particular situation. Of course it comes in and is an interesting and relevant matter for this committee, as I see it, to study out and to know how Nicaragua intends to finance herself, and Nicaragua appreciates that interest. But the real proposition here is this proposed treaty that involves the payment of \$3,000,000 to bind Nicaragua for a certain canal and other concessions that Nicaragua thinks, and others of us think, worth very much more money than that.

Senator SMITH of Michigan. I only made that statement for this reason, that when we took over Cuba under the Platt amendment we knew exactly the debt that Cuba was owing; we knew just what her income would be, and we said, "Up to a certain amount you can go and no further." They could only contract such debt as the ordinary revenues of the Republic would take care of. Now, to buy this canal, which everybody thinks is worth more than \$3,000,000—which would sell, perhaps, for more than that, and in which certain Central American States are interested—

Mr. DOUGLAS. Yes; I think they can sell it for \$10,000,000.

Senator SMITH of Michigan. Does not look to me like that altruistic interest in Central America which we have talked so much about, and before we get very far with it we should know that our money is going to do what is intended.

Mr. DOUGLAS. Will you pardon me for saying that it will do one thing—it will first settle all the debts to nations other than the United States. If it does that one thing, it will help to remove a pretty serious complication existing there now that Nicaragua up to this time has been utterly unable to deal with at all. It will not only do that, but it will settle and get out of politics and out of the minds of the people of Nicaragua the question of the ownership of the Nicaraguan Canal, which is a source of irritation and anxiety and debate there now. It will, in addition to that, place Nicaragua in the position

where confidence in the United States will be strong. They have felt—although it is nobody's fault—that this thing has been drifting for the last 12 months, until Nicaragua has been utterly unable to finance herself. She does not know what to do with reference to the permanent loan; she does not know what is going to become of the canal concessions of any of these other countries, and I think it will put business conditions at rest, or at ease, in other words, if this matter is disposed of.

Senator WILLIAMS. If I understand you correctly, it involves not only the actual debt paying but the potential of debt paying, growing out of the fact that certain restrictions upon the customhouse receipts and the railroad receipts and other difficulties will be removed, so that the Republic of Nicaragua will get a larger percentage—

Mr. DOUGLAS. I was coming to that very point.

Senator WILLIAMS. And that that is a potential debt paying of a great deal of importance.

Secretary BRYAN. Not only that, but this will pay \$3,000,000 on the \$5,000,000 that are pressing and this Platt amendment will give them a standing and power to borrow very much superior to what they now have, and will enable them to very easily get the money necessary to meet those other pressing debts, and will put their business in order so that there will be hope of getting on a good footing.

Senator SMITH of Michigan. They must, of course, take care of this Brown Bros. claim, due October 8 of this year, of \$1,060,000, or they will lose the 49 per cent of their railroad stock which has been hypothecated. Now, there is \$1,060,000 of that money that must be used to conserve the Government's property or the Government property will be taken away from them, with the expenses of the Government, running into very large sums, unpaid salaries, etc., so you can not have very much money to settle foreign claims.

Secretary BRYAN. But take \$1,060,000 to pay the Brown Bros.' claim and, say, \$1,200,000 to pay the foreign claims—

Mr. DOUGLAS. It will be very much less than that.

Secretary BRYAN. You have something like \$1,000,000 left to pay other claims, and that can be used to take care of those of them that are pressing, and then there would be the credit that the country would get from the Platt amendment.

Senator WILLIAMS. And you have removed certain encumbrances from the customhouse.

Secretary BRYAN. Yes.

Senator SMITH of Michigan. There is no possible way to supersede the bankers until the balance of their indebtedness is paid.

Senator HITCHCOCK. Let me clear up this other statement that you have put in the record. Does this Ethelburger debt represent an amortization?

Mr. DOUGLAS. Yes, sir.

Senator HITCHCOCK. That is, by the payment of \$31,500 a month the whole indebtedness will be ultimately paid off.

Mr. DOUGLAS. There is a sinking fund.

Senator HITCHCOCK. There are included in other accounts \$3,478,000?

Mr. DOUGLAS. I do not know that I can answer that question. I have not undertaken to acquire expert knowledge as to the finances of Nicaragua. What page do you read from?

Senator HITCHCOCK. This is the statement you put in the record yesterday, appearing on page 34.

Mr. DOUGLAS. That is a letter from Mr. Cuadra to the Secretary of State. I do not know what items compose that. But I am going to make a suggestion to you, that I think it would be interesting and instructive to this committee to have Mr. Cuadra, the minister of finance, appear before this committee, and Gen. Chamorro, the minister of Nicaragua.

Senator HITCHCOCK. The trouble is we are not getting real information. We are getting opinion, and I wanted to get information as to the financial condition of Nicaragua.

Secretary BRYAN. These gentlemen could probably give you more information.

Senator HITCHCOCK. Do you know, as a matter of fact, whether the Ethelburger debt was scaled down or has it been taken in gross, as it originally was?

Mr. DOUGLAS. I think it is slightly scaled. I have a book here that I have gone to some trouble to get, which I want to turn over to the committee. It gives the history of the Ethelburger debt. I am addressing my remarks to you, Senator Hitchcock, and to Senator Smith, because he asked some questions about that. I will hand it to the committee. It is a volume entitled, "Thirty-ninth Annual Report of the Council of the Corporation of Foreign Bondholders, Established Under Special License of the Board of Trade, August, 1873. Incorporated by act of Parliament July, 1898, for the Year 1912," published in London, and commencing on page 259 down to and including page 262 you will find the entire history of the Ethelburger loan.

Senator HITCHCOCK. I would like to have that put into the record.

Mr. DOUGLAS. That ought to be put into the record. I will hand it to the stenographer and suggest that there be inserted the matter from page 259 down to and including page 271. The reason I have extended that, Senator, is because I find also here not only a statement of the history of the Ethelburger debt but the agreement entered into on the 25th day of May, 1912, between the Republic of Nicaragua, represented by Brown Bros. & Seligman Co., and the corporation of foreign bondholders.

Senator HITCHCOCK. Are those the only pages that refer to Nicaragua?

Mr. DOUGLAS. That includes the subject of Nicaragua, from page 259 to page 271.

The CHAIRMAN. That will be inserted in the record.

(The matter referred to is as follows:)

NICARAGUA.

Nicaragua sterling loan of 1909:

Authorized amount	£1,250,000
Less redeemed	41,140
	1,208,860

NICARAGUA COMMITTEE.

Right Hon. Lord Avebury, chairman; Right Hon. Lord Allerton; J. E. Black, Esq.; F. E. Cooper, Esq.; Hon. Sir C. W. Fremantle, K. C. B.; F. Hill, Esq.; B. Newgass, Esq.; F. B. Assmore, Esq.; C. M. Rose, Esq.; R. Rosenbacher, Esq.; H. T. Tatham, Esq.; James P. Cooper, Esq., secretary.

Area (about)-----	50,000
Population (estimated, 1907)-----	600,000
Present capital, Managua, population (about)-----	34,000
Old capital, Leon, population (about)-----	45,000
External debt per head-----	£2, 4d.

President, Don Adolfo Diaz.

Minister resident and consul general of Great Britain in Nicaragua (resident at Guatemala), Sir Lionel Carden.

Consul General of Nicaragua in Great Britain, Don Felipe E. Martinez, K. C. M. G.

HISTORY OF THE DEBT (FOREIGN).

1827. The proportion of the debt of the Central American Federation (£163,000) taken over by Nicaragua in 1827 was two-twelfths, or about £27,200. No payment was made on account of this debt until 1874.

1874. An arrangement was made, against the advice of the council, by which the bondholders received post bills bearing 5 per cent interest, and redeemable in two, three, and four years at the rate of £14 for each old Central American bond.

1886. Nicaragua Railways 6 per cent mortgage bonds. Amount £285,000, issued at 92½ per cent by the city bank. Redeemable at par in 1919. Specially secured by a first mortgage on the Nicaragua Railways and on the customs duties. (Converted in 1909; see below.)

1894. Interest fell into default on the 1st of July.

1895. The Government and the council of foreign bondholders effected a settlement of the debt, of which the following were the chief provisions:

(1) Interest on the principal of £285,000, to be paid from the 1st of January, 1896, at the rate of 4 per cent per annum.

(2) The coupons in arrears from 1st of July, 1894, to 1st of January, 1896, inclusive, amounting to £34,200, to be deposited with the council, and certificates to be issued against them for 50 per cent of their nominal value.

(3) An accumulative sinking fund of 1 per cent on the principal of £285,000, to be applied, one-half to the redemption of the said principal and one-half to the redemption of the certificates by purchases or tenders when the price is below par, and by drawings when the price is at or above par. Upon the complete redemption of the certificates the whole 1 per cent to be applied to the amortization of the principal. (The redemption of the certificates was completed in July, 1904.)

(4) A special tax of at least \$1 gold on each quintal of coffee exported to be assigned as security for the service of the debt, and to be continued until all the bonds and certificates are redeemed. Warrants representing the whole of the said export duty to be issued by the Government and handed to the agent of the bondholders in Nicaragua; the duty being payable only in such warrants. After the agent has collected a sufficient sum to cover the whole of the debt service for the year, the warrants remaining in his hands to be returned to the Government. If the sale of warrants should not, from any cause, provide sufficient funds the Government to make good the deficiency.

(5) The Government to have right to dispose of the railways hypothecated to the bondholders on surrendering to the council of foreign bondholders for cancellation £200,000 nominal in bonds of the existing debt, in which case the bondholders release all further lien on the said railways.

1904. A 6 per cent loan of \$1,000,000 gold was negotiated at 75 per cent with Mr. Weinberger, of New Orleans, and subscribed in New York, Boston, and New Orleans. This loan is secured upon 25 per cent of the customs receipts on the Atlantic coast of the country, and is redeemable in 25 years by installments of \$200,000 gold each, payable every fifth year. (Paid off in 1909; see below.) The redemption of the certificates issued under the 1895 arrangement in respect of the arrears of interest on the railway loan of 1886 was completed during

this year, and the whole sinking fund of 1 per cent, therefore, became available for the amortization of the principal.

1905. By a decree of October 13, the Executive was authorized to contract abroad for a loan of £1,000,000, part of which was to be applied to the conversion of the existing external loans. An advance of £52,300 was made to the Government by the Ethelburger Syndicate, the contractors for the loan, against an issue of £80,000 of bonds, but otherwise the matter was not proceeded with. The advance made by the syndicate was repaid out of the proceeds of the loan issued in 1909.

1909. Six per cent sterling loan of 1909. Authorized amount, £1,250,000, of which (1) £500,000 was to be applied to the conversion or redemption of the Nicaragua railways mortgage bonds of 1886 and of the American loan of 1904; (2) £570,000 to the construction of the railway from the Lake of Nicaragua to the Atlantic; and (3) £180,000 to the general purposes of the Government.

Of the foregoing amount £500,000 was offered in London at 92 by the Anglo-South American Bank, and £500,000 in Paris at 93½ by the Banque Commerciale et Industrielle, acting on behalf of the Ethelburger Syndicate, the contractors for the loan. The loan is redeemable within 35 years by an accumulative sinking fund commencing January 1, 1910, and secured upon (1) the entire customs duties of the Republic; (2) the amount payable by the two English companies owning the concessions for the liquor and tobacco monopolies, these companies undertaking, irrespective of the guarantees given by the State, to provide the annual sum of £87,500 and to pay the same direct to the bank charged with the service of the loan; and (3) the existing railways and those to be constructed out of the proceeds of the loan, together with the Government steamboats on the lakes of Nicaragua. The loan is to take precedence of any future debts contracted by the Republic. The bonds of the railways loan of 1886 were exchanged for bonds of the 1909 loan at the rate of 86 per cent.

1910. The Government of Nicaragua declared the liquor and tobacco monopolies to be unconstitutional.

1911-12. The sinking fund for 1911 on the 1909 loan was not applied, and the coupon due January 1, 1912, went into default. In May, 1912, a settlement of the debt was effected. (See below.)

SETTLEMENT OF THE EXTERNAL DEBT.

The following is the text of the agreement for the settlement of the debt, signed in New York, on 25th of May, 1912:

Agreement made in the city of New York, this 25th day of May, 1912, between the Republic of Nicaragua, hereinafter called the "Republic," party of the first part, represented by Brown Bros. & Co. and J. & W. Seligman & Co., copartnerships doing business in the city of New York, hereinafter called the "Bankers," and the Corporation of Foreign Bondholders of London, a body politic organized under an act of the Parliament of the Kingdom of Great Britain and Ireland, hereinafter called the "Corporation," party of the second part:

Witnesseth: That in consideration of the mutual covenants and undertakings hereinafter contained, it is hereby agreed as follows:

Article first. This agreement shall take effect only when and in case the Bankers and the Corporation shall declare the same to be operative; said declaration in order to be effective shall be in writing signed by the Bankers and the Corporation or by their duly authorized representatives, and shall be exchanged between the parties on or before the 30th day of June, 1912, or within such further period as the Bankers and the Corporation may agree. In case said declaration shall not be exchanged as aforesaid, the present agreement shall be null and void, and in that event nothing herein contained shall alter or effect the present legal relations of the parties hereto to each other, or the relations of the Republic to the holders of bonds known as the "Republic of Nicaragua 6 per cent gold bonds, 1909," hereinafter called "1909 bonds," and the rights and obligations of said parties and said bondholders toward each other shall continue as they were prior to the execution hereof, and in all respects the same as if the present agreement had not been made.

Article second. Any holders of "1909 bonds" may participate in this agreement by disposing their said bonds and all unpaid coupons with the Corporations or with such depositaries as it may appoint. Such deposits shall be made in such places and in such manner as the Corporation may determine, and within such period as the Bankers and the Corporation may agree.

Article third. Upon this agreement becoming operative as aforesaid, the Corporation shall in such manner and form as the Bankers and the Corporation may determine, stamp or cause to be stamped the deposited bonds (hereinafter called stamped or assenting bonds), and also all coupons attached thereto maturing on and after July 1, 1912.

All bonds and coupons so stamped shall be subject in all respects to the provisions of this agreement, and the acceptance of such bonds by the depositors and successive holders thereof shall constitute an acceptance by such depositors and holders of this agreement.

Article fourth. If and whenever the present agreement shall become operative as aforesaid, the interest upon all "1909 bonds" stamped hereunder, represented by coupons maturing on and after July 1, 1912, shall ipso facto be and become reduced from six (6) per cent, the present rate to five (5) per cent, and in that case the Republic hereby pledges its faith and credit to the due and punctual payment of the par value of said bonds when due, and of interest thereon in the meantime at the rate or five (5) per cent per annum. Said reduction, however, is agreed to only upon the following conditions:

(1) That so long as any of the said stamped "1909 bonds" remained unpaid, the customs revenues of the Republic shall continue to be collected by a collector general of customs approved by the Secretary of State of the United States and appointed by the Republic; and

(2) That from the 1st of January, 1913, the proportionate amount required to be provided for the payment in gold in Europe of the interest and sinking fund of the assenting bonds and the expenses of the debt service shall be remitted every month by the collector general of customs to the bankers in New York or to the bank or banks in Europe charged with the service of the debt, in such way that the entire sum necessary to cover each half-yearly payment of interest and sinking fund, as hereinafter stipulated, shall be in hand at least a fortnight before such a payment falls due.

The Republic hereby agrees that so long as any of said stamped "1909 bonds" remain unpaid, said collections by the collector general shall continue to be made and remitted in the manner above stated. The Republic hereby also recognizes the right of the Bankers and the Corporation to apply to the United States of America for protection against violation of the provision of this agreement and for aid in the enforcement thereof.

Article fifth. After January 1, 1913, and until paid, the stamped "1909 bonds," the reduced coupons, and the sinking fund hereinafter mentioned shall, in lieu of any other security, be secured by a first lien upon the entire customs revenues of the Republic. So long, however, as the Republic shall make the monthly remittances required for the service of the loan, the balance of such revenues shall be available for the general purposes of the Republic.

The Republic undertakes not to effect or diminish in any way the value or efficiency of the security thus pledged to the assenting bondholders.

The assenting bondholders hereby accept said customs revenues, collected and administered as aforesaid, as the sole security for the payment of the stamped "1909 bonds," the reduced coupons, and the sinking fund, and hereby waive and release any other security or any other claims or charges upon real or personal property.

Article sixth. Upon this agreement becoming operative, the Banker shall deposit or cause to be deposited with the Corporation the sum of £125,940, which shall be held in trust by the Corporation and by it applied and disposed of as follows:

(1) £38,440, or so much thereof as may be necessary, to the payment of the unreduced coupon which came due January 1, 1912, upon all stamped "1909 bonds," and upon all bonds heretofore redeemed, and also to the payment of interest at the rate of 5 per cent per annum upon the amount represented by said coupon, such interest to be calculated from January 1, 1912, to the date when said payment is first announced.

(2) £31,250, or so much thereof as may be necessary, to the payment of the reduced coupon due on July 1, 1912, upon all stamped "1909 bonds," and upon all bonds heretofore redeemed.

(3) £31,250, or so much thereof as may be necessary, to the payment of the reduced coupon due on January 1, 1913, upon all stamped "1909 bonds," and upon all bonds heretofore redeemed.

(4) £25,000, together with the interest payable under paragraphs (1), (2), and (3) of this article on all bonds heretofore redeemed, representing the sinking fund corresponding to the years 1911 and 1912, shall be applied to the

purchase or redemption of stamped "1909 bonds" in such manner and form as may be agreed upon between the Bankers and the Corporation as most economical for the Republic.

(5) Any balance remaining in the hands of the Corporation on June 30, 1913, or at such later date as the Bankers and the Corporation may agree, shall be paid to the Bankers for account of the Republic.

Article seventh. Interest upon the stamped "1909 bonds" represented by the coupons maturing on and after July 1, 1913, and the principal of said stamped bonds at maturity or when redeemed by the sinking fund hereinafter mentioned, shall be payable upon surrender of the corresponding stamped coupons and stamped bonds at the offices of Brown, Shipley & Co., or Seligman Bros. in London, or of Seligman Freres & Cie. in Paris, of Alsberg, Goldberg & Co. in Amsterdam, and at such other banks or banking houses as the Bankers on behalf of the Republic may designate for that purpose.

So long as any stamped "1909 bonds" remain unpaid there shall be applied annually to their redemption a sum equal to at least 1 per cent of the face amount of all bonds theretofore stamped as herein provided, and also a sum equal to 5 per cent of the face amount of all redeemed bonds. The sinking fund shall be applied by drawings for repayment at par with accrued interest when the price is at or above par, otherwise it shall be applied by tenders or purchases. The details connected with the administration of the sinking fund shall be agreed upon between the Bankers and the Corporation, who are hereby authorized to determine generally the obligation and liabilities of the banks or banking houses charged with the service of the loan.

Article eighth. In the event of certain contracts with the Bankers, dated September 1, 1911, or a similar financial operation as that contemplated thereby being carried into effect, the Republic hereby agrees to purchase, and the holders of assenting bonds hereby agree to sell and deliver their bonds to the Republic on the following conditions:

If said purchase be effected within two years from the date when this agreement shall become operative the purchase price shall be an amount equivalent to 93 per cent of the face value of the bonds purchased, and in addition thereto accrued interest at the rate of 5 per cent per annum.

If said purchase be effected after the expiration of two years and prior to the expiration of four years from said date, the purchase price shall be an amount equivalent to 94 per cent of the face value of the bonds purchased, and in addition thereto accrued interest at the rate of 5 per cent per annum.

If said purchase be effected after the expiration of four years and prior to the expiration of six years from said date, the purchase price shall be an amount equal to 95 per cent of the face value of the bonds purchased, and in addition thereto accrued interest at the rate of 5 per cent per annum.

After the expiration of six years from said date the purchase price shall be an amount equivalent to the face value of said bonds and accrued interest at the rate of 5 per cent per annum.

In the case of the purchase of the stamped bonds as above mentioned, the Republic shall, through the Bankers or otherwise, arrange that the Corporation give the bondholders at least one month's notice of its intention to make the purchase, and the Corporation shall thereupon do so by public advertisement or otherwise as the Corporation may deem expedient. The amount required for the purchase of said bonds shall be deposited by or for account of the Republic prior to the purchase date specified in said notice with such banks or banking houses as the Republic may determine. The amount thus deposited shall be held by said banks or banking houses as a special fund for the holders of such bonds, and shall be paid out only on presentation and surrender of such bonds with all coupons appertaining thereto. All stamped "1909 bonds" shall cease to draw interest from and after the purchase date specified in the notice, and from the date of said deposit shall cease to be entitled to the benefit of the security afforded by this agreement.

The Bankers and the Corporation are hereby authorized to determine generally the obligation and liabilities of the banks or banking houses acting hereunder.

If no purchase is made under the provision of this article owing to the financial operation above mentioned not being carried out, the redemption of the assenting bonds will be effected by the sinking fund as provided by article seventh of this agreement. In any case said stamped "1909 bonds" shall be paid at maturity.

Article ninth. In case of failure on the part of the Republic to make duly and punctually any of the payments herein provided or recognized, whether of interest or sinking fund, the coupons of the assenting bonds of 1909 are ipso facto restored to their full rate of six (6) per cent.

Article tenth. Except as hereby varied, the rights of the parties hereto and of the holders of "1909 bonds" shall in all respects remain the same as they were prior to the execution hereof. And any provisions contained in other contracts which in any way conflict with the provisions of this agreement shall be null and void.

Article eleventh. The Bankers execute this agreement on behalf of the Republic and assume no personal liability in so doing.

Article twelfth. This agreement shall bind and is for the exclusive benefit of the parties hereto. Nothing herein contained, either by way of recital or otherwise, shall be deemed or construed as an admission by the Republic in favor of the holders of any "1909 bonds" which may not be stamped hereunder, or of any other person or corporation not a party hereto, nor as creating any trust or obligation in favor of or conferring any privilege or benefit whatsoever upon any holders or owners of any such unstamped bonds, or any creditor or concessionaire of the Republic, or any person or corporation claiming to be such creditor or concessionaire.

Article thirteenth. This agreement is executed by the parties hereto with the object of effecting a settlement of all differences between the Republic and the holders of bonds known as the "Republic of Nicaragua 6 per cent gold bonds, 1909," as well as any other persons or corporations who are interested in the adjustment of said differences.

Article fourteenth. This agreement shall be deemed to be and shall be construed as a New York contract.

In witness whereof the Republic has caused these presents to be executed by the Bankers above mentioned, and the Corporation of Foreign Bondholders has caused these presents to be executed by its secretary thereunto duly authorized,

REPUBLIC OF NICARAGUA,
By BROWN BROTHERS & Co.,
J. & W. SELIGMAN & Co., *Agents*.
THE CORPORATION OF FOREIGN BONDHOLDERS,
By JAMES P. COPPER, *Secretary*.

CUSTOMS RECEIPTS.

The council are indebted to Mr. E. H. Wands for the following information respecting the collection of the customs revenue since the American collector general entered on his duties:

	Gold.
December 18, 1911, to January 31, 1912-----	\$41, 491
February-----	74, 919
March-----	106, 464
April-----	90, 282
May-----	131, 667
June-----	159, 011
July-----	120, 588
August-----	51, 249
September-----	27, 980
October-----	99, 184
November-----	198, 000
Total-----	1, 010, 835

The returns to the end of August are complete. Subsequent returns are based partially or wholly on cable advices. The falling off in the returns for August and September was caused by the revolution.

Owing to the unsettled state of the Republic for several years past, information with regard to its finances which is either recent or reliable can not be obtained.

For the last five years no budgets appear to have been published.

The following figures with regard to revenue and expenditure and the internal debt have been supplied to the council by the courtesy of the foreign office.

The figures of revenue and expenditure for 1909 and 1910 differ considerably from those given in the council's last report.

	Revenue, currency.	Expendi- ture, currency.
1906.....	\$12,065,115	\$9,818,067
1907.....	13,173,898	15,825,401
1908.....	13,119,503	12,502,592
1909.....	12,999,925	17,322,528
1910.....	16,022,397	26,724,392

The revenue for 1911 was estimated at \$24,000,000 currency, but the expenditure for that year is not yet ascertainable, although a large deficit is anticipated.

The internal debt in March, 1912, consisted of the following items:

National paper.....	\$47,000,000
Sundry creditors.....	10,230,243
Nickel.....	849,916
Interior loans.....	1,337,138
	59,417,197

TRADE STATISTICS.

The following tables are compiled from the foreign office report of Acting Consul General Venables, published in May, 1912:

Imports, 1910.

Textiles.....	£139,607
Boots, bootmaking materials, etc.....	21,399
Soaps and perfumery.....	16,366
Rice and flour.....	56,421
Preserved provisions, confectionery, etc.....	8,356
Aerated waters, beers, wines, and spirits.....	14,861
Mining materials.....	12,850
Oils, various.....	23,327
Arms, hardware, etc.....	10,040
Agricultural implements.....	6,056
Jute bags.....	7,842
Machinery.....	20,230
Paints, turpentine, etc.....	4,103
Miscellaneous articles.....	247,005
Total.....	588,463

Exports, 1910.

Coffee.....	£576,198
Rubber.....	71,231
Bananas.....	22,090
Cocoa.....	4,291
Sugar.....	3,130
Cotton.....	2,258
Mahogany, cedar, and other woods.....	11,859
Hides and skins.....	49,922
Gold, in amalgam, cyanides, and concentrates.....	78,603
Gold, smelted, precipitated, and in bars.....	104,637
Silver and other metals.....	882
Miscellaneous articles.....	11,189
Total.....	936,290

EXCHANGE.

The council are informed that the following were the rates of exchange ruling on the 1st of each month during 1912:

[Currency dollars=\$1 American gold.]

January 1	\$18.40
February 1	18.00
March 1	16.25
April 1	16.10
May 1	16.00
June 1	16.00
July 1	15.50
August 1	15.50
September 1	15.00
October 1	15.00
November 1	14.00
December 1	14.00

Senator POMERENE. I do not understand who makes that statement.

Mr. DOUGLAS. That is made by the council of foreign bondholders.

Senator HITCHCOCK. The rest of the book refers to other countries.

Mr. DOUGLAS. Yes, sir; Paraguay and other countries. It is a résumé of their transactions in bonds of foreign countries, but that part of it only refers to Nicaragua.

Senator HITCHCOCK. Is that an official publication?

Mr. DOUGLAS. Yes, sir. I have here—I think it is not fully stated there—the history of the legislation by the Congress of Nicaragua on the subject of various loans that were consolidated by what is known as the loan from the Ethelburger Syndicate. I will hand that to the stenographer to be inserted in the record.

(The matter referred to is as follows:)

MEMORANDUM IN RE ETHELBURGER SYNDICATE LOAN.

On September 5, 1908, the Nicaraguan Congress passed an act which was approved by the executive on September 11, 1908, decreeing, among other things as follows:

[Translation.]

"ART. 1. The executive is hereby authorized to contract a loan abroad for the amount of £1,250,000, nominal, in gold bonds on the most favorable conditions possible of issue, interest, and amortization. The proceeds of this loan are destined for the redemption of the English loan of December 17, 1886, as modified on September 12, 1895, and of the American loan of April 4, 1904, and with preference for the completion of the railway from San Miguelito to Monkey Point.

"ART. 3. The contract for the loan shall not become effective until after having been examined and approved by the executive power."

On September 16, 1908, a power of attorney was executed by Ernesto Martinez, minister of finance and public credit of the Government of the Republic of Nicaragua, whereby in such capacity and acting on behalf of the said Government of Nicaragua, and in accordance with special instructions from the president of said Republic, he granted special and general power to Angel Caligaris.

"so as to obtain, in common accord with Don Crisanto Medina, diplomatic minister of Nicaragua in France and England, from the bankers of London, Paris, or elsewhere, a loan up to the amount of one million two hundred and fifty thousand pounds sterling on the most favorable conditions possible regarding issue, interest, and amortization and to that effect he empowers him to contract the said loan at the price of issue, rate of interest, length of time, and

form of amortization, on the terms and conditions which he may think more convenient for the said Republic of Nicaragua"—
and whereby he also authorized—

"the said Señor Caligaris to arrange, cancel, and extinguish the foreign debt which prevails on the earnings of the National Railway, i. e. the loan contracted in London on the 17th of December, 1883, modified by the agreement of the 12th of September, 1895; and the loan of the 4th of April, 1904, secured in this city with a group of American bankers on the guaranty of the revenue of the Bluefields and Cabo de Gracias a Dios customhouses; that in order to guarantee the repayment of the said loan of £1,250,000 sterling and the corresponding interests, he specially authorizes the said Señor Caligaris to constitute a first and preferred charge upon the properties, duties, and revenues mentioned in article 2 of the legislative decree of the 5th of September of the current year 1908, which authorizes the Government of Nicaragua to contract a loan for £1,250,000 sterling, which decree is inserted in the body of this document."

On September 19, 1908, a similar power of attorney was executed in favor of Crisanto Medina to act jointly with Angel Caligaris.

By decree dated November 24, 1908, the president of the republic, through Ernesto Martinez, minister of finance and public credit, pursuant to article 3 of the law of September 11, 1908, approved the contract consisting of 28 articles agreed upon between Crisanto Medina and Angel Caligaris, acting on behalf of the republic and the Ethelburger Syndicate (Ltd.), the contract so approved being presumably a draft of the contract as afterwards executed on January 19, 1909.

FIRST ETHELBURGER SYNDICATE CONTRACT DATED JANUARY 19, 1909.

This contract was executed in Paris, the Government of Nicaragua being represented by Crisanto Medina and Angel Caligaris, acting under powers of attorney which are in this instrument described as having been executed in their favor by the minister of finance and public credit on September 19, 1908, whereas the fact was that the power of attorney in favor of Angel Caligaris bears date September 16, 1908.

This contract authorized the issue of £1,250,000 of 6 per cent gold bonds, payable in 35 years, with 1 per cent sinking fund, redeemable at any time at par upon six months' notice. The issue was secured as authorized by the law of September 11, 1908, article 12 of this contract, is as follows:

"The bonds to be issued shall bear interest on their nominal amount at the rate of 6 per cent per annum, and the nominal amount of the loan shall be one million two hundred and fifty thousand pounds. The syndicate shall, with the bonds and the proceeds of the public issue thereof, discharge the loans to the Government of fifty thousand pounds, and two thousand three hundred pounds, made by the London Bank of Mexico and South America (Limited) and the syndicate respectively, with interest thereon, and arrange the redemption or conversion of the existing English loan of one thousand and eight hundred and eighty-six, and New Orleans loan of one thousand nine hundred and four, and provide the Government with the sum of five hundred and ten thousand pounds in cash. The provisional certificates and bonds deposited with bank shall be dealt with as follows:

"The bonds of the nominal value of five hundred thousand pounds reserved for the redemption and conversion of the existing English and New Orleans loans shall be delivered to the syndicate in exchange for canceled bonds of those loans, at such times and in such amounts as the syndicate may require to take delivery thereof, provided always that the arrangements for the redemption and conversion of the existing English and New Orleans loans shall be made by the syndicate, and that the Government will from time to time, upon the request by the syndicate, deliver it for public issue and sale bonds so reserved. The remaining bonds of the nominal value of seven hundred and fifty thousand pounds shall be purchased by the syndicate and delivered to it upon payment to the bank, for account of the Government, at the rate of seventy-five pounds for every one hundred pounds nominal value of bonds. The first payment to the Government hereunder shall be for the amount of not less than fifty thousand pounds, and be made within thirty days from the date hereof, and subsequent payments shall be made by the syndicate at the rate of not less than fifty thousand pounds per calendar month."

SECOND ETHELBURGA SYNDICATE CONTRACT, DATED MARCH 30, 1909.

This second contract was executed on behalf of the Republic of Nicaragua by Medina and Caligaris, acting under powers of attorney of September 19, 1909, and September 16, 1909, above referred to, and purporting to modify the first contract by providing,

- (1) A different disposition of the proceeds of the loan, and
- (2) A transfer to the Ethelburga Syndicate of the control over the construction of the proposed railway from Lake Nicaragua to the Atlantic Ocean.

Senator POMERENE. I wish you would explain, in a word, what this Ethelburger syndicate is; who they are?

Mr. DOUGLAS. I do not know; it is composed principally of English people. I do not think there are any Americans at all.

Senator POMERENE. English capitalists?

Mr. DOUGLAS. Yes, sir. The loan was negotiated in London to take up, as you will see by this book, two or three outstanding loans to furnish additional capital to Nicaragua, and was done during the administration of Zelaya.

Senator SMITH of Michigan. To build additional harbors. There were no railroads except from Monkey Point down the Atlantic coast. About 12 miles was built, but it has since been destroyed.

Senator POMERENE. This gives the amount of that as \$6,000,000. In view of certain representations that have been made to me I would like to have you, if you can, tell the committee how much the Nicaraguan Government in fact realized on it.

Mr. DOUGLAS. I have no source of information except what is contained in this volume and in the contract itself, a copy of which I have here, but which is also read into this volume.

Senator O'GORMAN. What is your impression as to the amount received by the Government?

Mr. DOUGLAS. My information is that they received about 75 cents on the dollar.

Senator POMERENE. May I ask the source of that information?

Mr. DOUGLAS. My information comes from the minister of finance as his information. It was a long time prior to his time of filling the office of minister of finance. Let me read to the committee just two paragraphs that Mr. Chamorro told me this morning constitute the balance of the Ethelburger debt:

1886. Nicaragua railways 6 per cent mortgage bonds. Amount £285,000; issued at 92½ per cent by the City Bank. Redeemable at par in 1919. Specially secured by a first mortgage on the Nicaragua railways and on the customs duties.

Then, underneath in brackets: "[Converted in 1909; see below.]"

Now, on page 261, I read the following:

1904. A 6 per cent loan of \$1,000,000 gold was negotiated at 75 per cent with Mr. Weinberger, of New Orleans, and subscribed in New York, Boston, and New Orleans. This loan is secured upon 25 per cent of the customs receipts on the Atlantic coast of the country, and is redeemable in 25 years by installments of \$200,000 gold each, payable every fifth year.

Now, I know that those two loans were taken up when they negotiated the Ethelburger loan, and I read from page 261 with reference to that:

1909. Six per cent sterling loan of 1909. Authorized amount, £1,250,000, of which (1) £500,000 was to be applied to the conversion or redemption of the Nicaragua railways mortgage bonds of 1886 and of the American loan of 1904—

Those are the first two items that constitute paragraph 1 in disposing of that loan—

(2) £570,000 for the construction of the railway from the Lake of Nicaragua to the Atlantic; and (3) £180,000 for the general purposes of the Government.

Senator HITCHCOCK. That makes the bonds of the railway \$2,500,000—just that one item alone—and there was an additional item for the railway.

Mr. DOUGLAS. If you will pardon me, let me finish—

Senator HITCHCOCK. And yet you figure the sale of the railway on a \$2,000,000 basis as very desirable.

Mr. DOUGLAS. I think if you will investigate the proposition you will find that that money did not go into the building of that railroad at all—certainly no great amount of it.

Senator O'GORMAN. What became of it?

Mr. DOUGLAS. I do not know. It was a long time ago—

Senator O'GORMAN. Did you ever hear?

Mr. DOUGLAS. No, sir; I never heard at all.

Senator HITCHCOCK. When was the railroad built?

Mr. DOUGLAS. About 25 or 30 years ago. Mr. Cuadra and Mr. Chamorro, who are residents and citizens of that country, will tell you ten times as much as I can. I do not know anything about it at all.

The CHAIRMAN. Who is the minister of finance?

Mr. DOUGLAS. Mr. Cuadra.

The CHAIRMAN. Does that office correspond with our Secretary of Treasury here?

Mr. DOUGLAS. Yes, sir.

The CHAIRMAN. Why is he in Washington?

Mr. DOUGLAS. Well, he has been between Washington and New York and Europe for the last 12 months. He came here primarily.—

The CHAIRMAN. On the business of his office or relating to his office?

Mr. DOUGLAS. Entirely so.

The CHAIRMAN. I will state to the committee that Judge Douglas states that he is not familiar with the finances or the indebtedness of Nicaragua in detail, and we are groping here now to get facts, when it seems to me that by bringing this minister of finance here we could get it in a tabular form, in a way that it would be right before us. Are we not unnecessarily consuming time?

Senator O'GORMAN. Mr. Chairman, I move that the official you spoke of be invited to come here at our next meeting.

Senator HITCHCOCK. Does he speak English, Mr. Douglas?

Mr. DOUGLAS. He speaks English well enough for you to understand him.

Secretary BRYAN. I think you had better have an interpreter.

Mr. DOUGLAS. I will have Mr. Livingston, who is connected with the office, come here.

Senator O'GORMAN. I move that they both be invited to come and appear before this committee.

Mr. DOUGLAS. If you will permit Mr. Livingston to come here as an interpreter, you will find him a very fine interpreter.

Senator HITCHCOCK. You started to say, in answer to a question, that this Ethelburger debt scaled down from the amortization?

Mr. DOUGLAS. I really prefer not to answer that, because I do not know. I stated this, that I found the Ethelburger debt of Nicaragua when I became its counsel, only about a year ago. I never undertook to open up the Ethelburger loan at all.

Senator SMITH of Michigan. You regarded that as a closed incident?

Mr. DOUGLAS. Yes; I had not been asked to take it up, and I never took it up.

Senator HITCHCOCK. When this matter was before the committee on a previous occasion it was proposed to scale down the debts of Nicaragua in consideration of certain treaty obligations of the United States?

Mr. DOUGLAS. How is that, Senator?

Senator HITCHCOCK. It was proposed to scale down the debts of Nicaragua to an honest basis, and one on which they could be met before the United States assumed certain treaty obligations. What I want to know now is whether, as time passed, when that scaling down came, had you, as a condition of this treaty—

Secretary BRYAN. This treaty has nothing to do with it.

Senator HITCHCOCK. I say on a previous occasion, when a proposed treaty was before this committee, a treaty offered by Secretary Knox, it was proposed in consideration of that treaty to scale down the debts of Nicaragua, and what I want to know now is whether, as time passed, when we can scale down the debts in consideration of this treaty for the protection of Nicaragua?

Secretary BRYAN. I think so, because this treaty has nothing to do with any past debts except so far as the money goes to liquidate debts on hand. As I understand it, this contract was made in 1912, probably just after the Senate refused to allow this treaty.

Senator SMITH of Michigan. In spite of the fact that the Senate refused to ratify the treaty they went ahead and made this contract?

Senator HITCHCOCK. Let me ask you this, Mr. Secretary. In article 5 is this provision:

The Government of Nicaragua shall not contract or assume any public debt, to pay the interest on which and to make provision for the reasonable sinking fund for the ultimate discharge of which the ordinary revenues of the Republic of Nicaragua, after defraying the current expenses of government, shall be inadequate.

That provides for the future?

Secretary BRYAN. Yes.

Senator HITCHCOCK. And restricting the borrowing power of Nicaragua. And does it not also measurably increase the security of the existing debts; and if that is true, in consideration of thus increasing the security of the existing debts, could not the United States require them to be made just?

Secretary BRYAN. The increasing of the security, I think, is a fact, and yet whether we could use that fact to compel the holders of bonds already issued to turn them in and take less is a question I would not be ready to decide. If it were a contract altogether where they were going to get a new security and a better security, then they might do something contingent upon our doing something, but, as I understand it—I am not fully informed as to the chronological facts—but as I understand it they tried to get this treaty ratified some two or three years ago and at that time they were expected to

make some scaling down in conjunction with the treaty, but they did not get the treaty ratified and Nicaragua had to go ahead, then, and do the best she could without the aid which this treaty would have given to her, and we now have to take the condition as we find it and provide for the future. I am not prepared to say that we could affect the past.

Senator HITCHCOCK. Take this Ethelburger debt, is not their security more or less precarious? Suppose this treaty is not enacted and Nicaragua goes into practical bankruptcy and anarchy, where would the Ethelburger debt be?

Mr. DOUGLAS. Pardon the interruption, but I believe there is some hope of doing something with that Ethelburger loan along the lines you suggested. I do not know.

Senator HITCHCOCK. That appears to me absolutely essential, if we are going to undertake a protectorate.

Secretary BRYAN. It might be worth trying.

Senator HITCHCOCK. I think it should be a real protectorate and give her protection now when we have the opportunity to approve their security.

Mr. DOUGLAS. If you will pardon a digression, which I think is a pertinent one; that is, I think you ought to have someone from Brown Bros. and from Seligman Co. to come before this committee and let them state the history, not only of their present connections with Nicaragua but the part they played in the settlement of the Ethelburger debt, because they acted as agents for Nicaragua in that particular agreement; and I will say now that I have found these gentlemen as clean and strong bankers as I ever met anywhere, and, so far as the present administration of Nicaragua is concerned, we are perfectly satisfied with the relations of Nicaragua and these gentlemen, so much so that we should like to do our further financing with them.

Senator O'GORMAN. I am much impressed with the last suggestion made by Senator Hitchcock. If we enter into this treaty, we are undoubtedly stabilizing security of doubtful value to-day, and if these bankers, to whom the witness alludes, control this Ethelburger indebtedness, they ought to come before us and give us an opportunity to learn from them what their attitude will be in the event of our assuming this new relation with Nicaragua. Therefore, I move that they be invited to come before this committee at the next or the second hearing following this.

The CHAIRMAN. Do you know who they are?

Mr. DOUGLAS. Yes, sir; I can give you the names of the parties, I think. Mr. James Brown, senior member of the firm of Brown Bros., and Mr. Strauss—

The CHAIRMAN. What Strauss?

Mr. DOUGLAS. I am trying to think. I will give the names to the stenographer of the gentlemen who had charge of these negotiations. I think Mr. Mallet-Prevost.

Senator SAULSBURY. You mean they represent this English syndicate?

Mr. DOUGLAS. No, sir; they represented Nicaragua on May 20, 1912, when the rate of interest was reduced.

Senator SMITH of Michigan. Mr. Frederick Strauss.

Senator WILLIAMS. That was the agreement cited in the document just given?

Senator SAULSBURY. How was the debt evidenced? In the form of bonds?

Mr. DOUGLAS. Yes, sir.

The CHAIRMAN. Do you know of anyone in this country representing the holdings of these securities?

Mr. DOUGLAS. No, sir; I do not. I want to complete my suggestion. I would suggest calling Mr. James Brown, of Brown Bros., Mr. Frederick Strauss, of Seligman Co., and Mr. Mallet-Prevost, of the law firm of Curtis, Mallet-Prevost & Colt, as witnesses here. Mr. Mallet-Prevost was the counsel for those people from the commencement of their relations with Nicaragua two or three years ago and is quite a distinguished lawyer, and represented this Government, I believe, as one of the commissioners on the Venezuela Commission.

The CHAIRMAN. Is it not a fact that while we may get some interesting information from the gentlemen whose names you have called, yet can we, through these people, get any understanding of the holders of the securities?

Mr. DOUGLAS. There is no one in this country that could answer that question so promptly and reliably as Mr. James Brown, of Brown Bros. If you do not require any of us to speculate about it he could answer that question very quickly as to what could probably be done.

Senator HITCHCOCK. Are these bonds sold on the market?

Mr. DOUGLAS. No, sir; so far as I know they are held entirely and closely held by inside capitalists.

The CHAIRMAN. Will you give me the name of that man that you suggested as an interpreter?

Mr. DOUGLAS. Mr. Livingston. He is with the Nicaragua legation here and is a very good interpreter.

Senator O'GORMAN. Shall we have a meeting to-morrow, Mr. Chairman?

The CHAIRMAN. The committee will have to have a meeting.

Senator SMITH of Michigan. I want to have Mr. Wands here.

Senator O'GORMAN. Who is he?

Senator SMITH of Michigan. He is the man who negotiated the purchase of the Ethelburger bonds while he represented Nicaragua for the bankers.

The CHAIRMAN. Where is he?

Senator SMITH of Michigan. He is a New York banker. He is the man recommended by the State Department, by the former Secretary, to go down there and rehabilitate the finances of Nicaragua. He was there seven days and rehabilitated the finances.

Senator WILLIAMS. Who is that?

Senator SMITH of Michigan. Mr. E. H. Wands. Our minister to Nicaragua described him as probably the most scientific financier to be found anywhere in the United States. I have got his exact language.

The CHAIRMAN. You wish him to be here?

Senator SMITH of Michigan. Yes, indeed.

Mr. DOUGLAS. Let me suggest a man who devised and worked up the plan for the reformation of the financial plan of Nicaragua—Mr. Charles A. Conant.

Senator SMITH of Michigan. He is one of them.

Senator WILLIAMS. He would want \$75 a day, as an expert, to appear.

Mr. DOUGLAS. Mr. Conant knows all about these conditions.

The CHAIRMAN. In that connection I will state that we have no authority for hearings involving any expenses. These invitations are sent out, and the appearance of these people must be at their own expense.

Senator WILLIAMS. We can inform him there will be no fees.

Secretary BRYAN. I think Brown Bros. will come without fees.

Mr. DOUGLAS. And I do not think Mr. Conant will ask any fee.

Secretary BRYAN. I think the Brown Bros. will come without any expense, because in the telegram, or letter, to Senator O'Gorman they expressed a willingness to put their books at the disposal of the committee.

Senator O'GORMAN. That is true.

Senator SMITH of Michigan. Mr. Ernest H. Wands, of New York City, who went to Nicaragua in company with the American minister, Mr. Northcote, in February, 1911—Mr. Northcote said, when he presented Mr. Wands to the Government, in his address presenting his credentials: "By designation and at the request of Your Excellency's Government, one of the most eminent authorities on finance in any country, Mr. E. H. Wands, who accompanies me." I should like to have Mr. Wands come before the committee.

Senator O'GORMAN. That probably is only diplomatic exaggeration.

Senator SMITH of Michigan. No. He was there seven days, I understand, and went back there again for three days at another time, and rehabilitated the finances of the country, and I believe he ought to come here.

Senator O'GORMAN. I move that he be included with those New York bankers, and that we hear all of them.

The CHAIRMAN. All right. That will be agreed to. However, we shall have to have a list, as far as possible, with the addresses.

Mr. DOUGLAS. I do not know Mr. Wands's address. I should like to present to the committee the hydrographic chart of the Gulf of Fonseca. It gives the depth of the water, both on the Nicaraguan and on the Salvadorean coasts.

Senator POMERENE (indicating on plat). This is Nicaragua?

Mr. DOUGLAS. This is Nicaragua. Down here, those figures are in fathoms, while the elevation of the land is in feet. You will find that the water along the coast of Nicaragua runs from 35 to 100 feet in depth.

Secretary BRYAN. The depth of the water seems to be ample.

Mr. DOUGLAS. I should state further to the committee that this Gulf of Fonseca has been the hatching place for revolutions for nearly a century, and the presence of a naval base of the United States, we feel, would almost of itself prevent the hatching out of revolutions hereafter.

Senator O'GORMAN. You say the hatching place of revolutions?

Mr. DOUGLAS. Of all Central America. You see, it is a landlocked harbor, so to speak. Almost every revolution of Central America has been hatched there.

The CHAIRMAN. The question, you know, has been raised here respecting the depth of the water.

Senator WILLIAMS. That is on the chart.

The CHAIRMAN. But that ought to be in the hearing, if you can formulate a concise statement as to the lay of that water and the depth.

Mr. DOUGLAS. No, sir; but I can ascertain for the committee. The only reason I went to the trouble to get this chart was because of a statement made by some one that there was a very shallow body of water there and that it could not be used for a naval base; but I am quite sure you can get some one to give you the exact facts.

The CHAIRMAN. Who prepared that map?

Mr. DOUGLAS. I got that from the Navy Department. I think it was prepared quite recently. You will see that the water right on that point is nearly 100 feet deep [indicating].

Secretary BRYAN. You see, there is a mountain here 2,800 feet high, and this bay comes around here. We can have any place on that coast we want.

Senator SMITH of Michigan. I think Nicaragua has an agreement with Salvador and Honduras that she will not at any time give any rights there about which the three parties are not consulted?

Secretary BRYAN. I think you are misinformed about that.

Senator SAULSBURY. When you get on the charted part, that is in feet?

Mr. DOUGLAS. Where it is covered with water it is in fathoms; where the land is exposed it is in feet.

Senator O'GORMAN. I was going to ask, has our Government conferred with any foreign power other than Nicaragua with respect to this proposed treaty?

Secretary BRYAN. No; we have a communication from Costa Rica, which joins Nicaragua along a part of this canal—the San Juan River. They have an agreement with Nicaragua, to which they called our attention.

Senator SMITH of Michigan. That is what I referred to.

Secretary BRYAN. I thought you meant Salvador.

Senator SMITH of Michigan. I think Salvador had some sort of agreement; but go ahead; I do not want to interrupt you.

Secretary BRYAN. I will tell you what Salvador did later. We looked over that agreement and reached the conclusion that it was not necessary for Nicaragua to consult Costa Rica until the canal was to be built, and we have notified Costa Rica that we would be glad to purchase her option, as we purchased Nicaragua's.

Senator O'GORMAN. At this time?

Secretary BRYAN. At this time or at any time.

Senator SMITH of Michigan. As a matter of fact, Costa Rica protested against this entire arrangement, did they not, very vigorously?

Secretary BRYAN. Yes. I should hardly call it a protest; but they called attention to the fact that they understand they are to be consulted in regard to this, and we think their right to be consulted is conditioned upon the building of the canal, at which time we would expect to consult them; but we are perfectly willing to buy their option at this time.

Senator O'GORMAN. Have we consulted with any European nation?

Secretary BRYAN. No. Now, as to Salvador. Salvador asked to be considered in regard to the Fonseca Bay matter on two grounds: First, on the ground that the bay was a joint bay; and, second, on

the ground that her political interests were involved. We answered that there had been a division of the bay which, while the treaties had not been signed, the limits had been fixed and the different countries had acted upon the basis of the treaty although it had not been signed; and we did not accept her view with regard to the political interests there because there was no menace to her political interest. And we also stated to Salvador and to Honduras that we would be glad to treat them just as we had Nicaragua and buy a naval base from them if they desired to sell.

Senator O'GORMAN. When did this correspondence take place with Salvador?

Secretary BRYAN. Within six months.

Senator O'GORMAN. Recently?

Secretary BRYAN. Yes.

Senator WILLIAMS. Our object, of course, in buying this is not to build a canal?

Senator O'GORMAN. Not at once.

Senator WILLIAMS. To buy the works and close them down to keep anybody else from building a canal. That is the whole business?

Senator SMITH of Michigan. That is what Costa Rica objected to, because it has interests in the river and Costa Rica thinks it ought to be improved?

Secretary BRYAN. Yes.

Senator SMITH of Michigan. Their interests are admitted in the river, I think, and that is the basis for the objection as well as to the Fonseca Bay, and it raises a serious question as to whether we are not riding rough shod over that country.

The CHAIRMAN. Costa Rica, Mr. Secretary, claims that this proposed arrangement with Nicaragua here conflicts with agreements between the coastal countries?

Secretary BRYAN. They call our attention to a treaty by the terms of which Nicaragua is to consult with Costa Rica in case of the building of a canal, and it was submitted to our counselor, Mr. Moore, and an answer was prepared to them. I am not sure that it was a written answer, but we conferred with the Costa Rican minister. Our answer was that we did not construe that to require the consent of Costa Rica to the sale of an option, but that her right to be consulted depended upon the building of a canal, and that that right would be recognized when the time came.

Senator WILLIAMS. If we ever built a canal?

Secretary BRYAN. Yes.

Senator WILLIAMS. Then we are pretty safe. We will never build a canal.

Secretary BRYAN. You state we never will build the canal. I should not want to say that. We can not tell what emergencies might arise or what needs might be felt, but we think that the option is worth having.

Have you anything more to say, Mr. Douglas?

Mr. DOUGLAS. No, sir.

Senator SMITH of Michigan. I have some questions I should like to ask rather categorically of Judge Douglas that the record may contain them. How long have you been counsel for Nicaragua?

Mr. DOUGLAS. About a year.

Senator SMITH of Michigan. And who appointed you?

Mr. DOUGLAS. The President of Nicaragua, through Mr. Cuadra, the minister of finance.

Senator SMITH of Michigan. Do you hold any official designation, or are you just employed?

Mr. DOUGLAS. I am simply employed as counsel.

Senator SMITH of Michigan. At a salary or upon a contingent fee?

Mr. DOUGLAS. At a salary. There is no contingency whatever. Pardon me for saying in this connection, Senator, so that there may be no misunderstanding here, I have no contingent interest whatsoever dependent upon the action of the Senate or of this committee or any other matters pending before Congress.

Senator SMITH of Michigan. Were you the counsel of Zelaya when he was in trouble here?

Mr. DOUGLAS. No, sir; I was counsel against him when he was in trouble. I represented the Nicaraguan Government and helped put through the arrangement for his deportation.

Senator SMITH of Michigan. When was that?

Mr. DOUGLAS. That was the fall of last year, was it not, Mr. Secretary?

Secretary BRYAN. At the time I came from New York?

Mr. DOUGLAS. Yes.

Secretary BRYAN. It was between six and nine months ago.

Mr. DOUGLAS. Yes; I will say six months ago.

Senator SMITH of Michigan. Were you active in arranging the present so-termed temporary loan to Nicaragua negotiated by Brown Bros. & Seligman?

Mr. DOUGLAS. I should say that I was very active. I went to New York on that I suppose 12 or 15 times, commencing with September of last year.

Senator SMITH of Michigan. And because of that intimacy with the matter do you know whether any other bankers than Brown Bros. & Seligman were considering the tender of a loan to the Republic at that time?

Mr. DOUGLAS. There was no tender made that I know of. There were suggestions—you can use a slang term and say there were “nibbles”—but nothing that led up, I believe, to any real hope of securing this money anywhere else.

Senator SMITH of Michigan. In your statement the other day you said you were active in defeating the so-called Jarvis loan—

Mr. DOUGLAS. I do not think I used that word. If I did, I did not mean it.

Senator SMITH of Michigan. I am quite clear.

Mr. DOUGLAS. If you look at it from the standpoint of practical results that might, in a way, be a correct expression to use.

Senator O’GORMAN. Did you oppose it?

Mr. DOUGLAS. I opposed it, Senator, in the way that I favored negotiating the loan with Brown Bros. My position with Mr. Cuadra was this. When I came home from my vacation I found that after the treaty proposition had been made to the committee to pass this treaty, or to ratify this treaty, and had failed, that Nicaraguan conditions became perilous in the extreme. When I returned I found Mr. Cuadra and Gen. Chamorro, the Nicaraguan minister, in the depths. They felt that Nicaragua was practically

going into bankruptcy, and they were reaching out in almost a hysterical way to get money to save the situation at almost any price and from any point. And when I returned, I think on the 29th of August, and saw Mr. Cuadra, perhaps the next day, I at once took an active part in the situation. I advised Mr. Cuadra and Gen. Chamorro that the only hope, in my judgment, for getting quick relief in the shape of a temporary loan would be from the people who knew Nicaraguan conditions; that if we should go to anyone else it would take a month to two months to educate them up to the point of familiarity that Brown Bros. and the Seligman Co. had, and that anyone else would require that they should have before they would launch into the affairs of Nicaragua; that if we should go to anyone else we would have to pay off the Brown Bros.'s loan, then about \$700,000, and I simply took the position that it was going along the line of the least resistance to get the money from these people in New York; that I believed then—and I believe now—to be clean and high-class bankers.

Senator SMITH of Michigan. Mr. Jarvis came over here from New York, did he not, just before that loan was completed, and called on the Secretary of State?

Mr. DOUGLAS. I understood after I came home that Mr. Jarvis had been here and had had some negotiations with Mr. Cuadra and perhaps with Gen. Chamorro. I never met him in my life; never saw him. When I saw the contract that was proposed to make with Mr. Jarvis, which had to be ratified by President Diaz—when I saw it on the train going with Mr. Cuadra from Washington to New York—I expressed my opinion that Mr. Jarvis could not get the money in London; that it was all right to try if they had sufficient time in which to do it; that their loan was maturing in October, the seven hundred thousand and odd dollars, and that the finances of Nicaragua were getting in worse condition from day to day; and I also advised them that the terms of the contract proposed by Jarvis were utterly and absolutely so unfair as not to be thought of seriously. His proposition involved fastening his services upon the Government of Nicaragua as an international minister of finance, and which term of service and tenure of office would last during the life of the loan, which was 25 years. I believe that to read that contract would be all the condemnation you would need. It was bad enough even on its merits, but I felt satisfied—and all anyone can do is to follow his best judgment—that this loan could not have been negotiated by Mr. Jarvis in London at that particular time. I knew that money was stringent; times were hard and were not improving; and I felt that if a temporary loan was to be made it should be made with the people to whom we owed the money. The result was, although I sent no cable to Mr. Diaz, I simply talked to Mr. Cuadra as I am talking to this committee, and President Diaz did not approve the tentative contract with Mr. Jarvis. Mr. Jarvis did suggest, so Mr. Cuadra told me, that he would put up \$250,000, or some substantial fund, as earnest of his own faith in his ability to put the loan through, but the money was never put up. Mr. Cuadra told me that he insisted that the money should be put up and, so far as I know, and so far as I have ever been informed, Mr. Cuadra never saw the color of Mr. Jarvis's money or anyone else's.

Senator SMITH of Michigan. Did you ever hear that the agent of Jarvis & Co. was en route to Nicaragua with the certified check for this amount of money, and was stopped when he reached New Orleans and ordered back to Washington?

Mr. DOUGLAS. I never heard that even hinted at or suggested in the most nebulous form before.

Senator O'GORMAN. By whom, Senator Smith?

Senator SMITH of Michigan. He was ordered back by—I do not know whether that communication went from the State Department or not, but I know there were officers in the State Department who were cognizant of his trip.

Secretary BRYAN. I think that was a proposed trip.

Senator SMITH of Michigan. What was it, Mr. Secretary?

Secretary BRYAN. A proposed trip. We were trying to get as many persons interested as possible in order to get some competition in the loan down there, and we conferred with Jarvis. My recollection is the proposition he made was that the loan should draw 5 per cent, and that he should have a commission, and the commission he suggested was 1 per cent, which would make it a 6 per cent loan, so that there was no advantage over the Brown loan.

Senator SMITH of Michigan. Did he come to see you after his return from Europe?

Secretary BRYAN. I am not sure whether he did after he returned or not.

Senator SMITH of Michigan. He came to see you shortly before his death in October, did he not?

Secretary BRYAN. I think that was possibly about another matter. He had two matters in which he was interested.

Senator SMITH of Michigan. He was also interested in the Santo Domingo matter?

Secretary BRYAN. In Santo Domingo and Nicaragua. But we could only consider a contract, or approve a contract, after it had been accepted by Nicaragua; and we met with the Nicaragua men, with them we met Jarvis, and we also conferred with Judge Douglas in regard to Brown, and we were trying to get both parties to make the best possible proposition to Nicaragua.

Senator SMITH of Michigan. You say this proposed trip to Nicaragua was in the interest of the other loan. Do you think it was only a proposed loan?

Secretary BRYAN. My recollection is that they asked if this could not be postponed longer for them to send a man down to consult the President directly.

Senator SMITH of Michigan. That man went, did he not?

Secretary BRYAN. I am not prepared to say, Senator Smith.

Senator SMITH of Michigan. He got as far as New Orleans and was stopped and ordered to return?

Mr. DOUGLAS. Did you hear who stopped him?

Senator SMITH of Michigan. Yes; I know who stopped him. I would rather have him tell it than tell it myself. But he came back from New Orleans.

Secretary BRYAN. You say you know who stopped him?

Senator SMITH of Michigan. Yes, sir.

Senator SHIVELY. Who stopped him?

Senator SMITH of Michigan. Why, the people who sent him.

Senator SHIVELY. Who sent him?

Secretary BRYAN. Jarvis.

Senator SMITH of Michigan. Jarvis sent him, I suppose, and stopped him because they had gone to Brown Bros. with the loan, and he returned with his certificate of deposit to Washington. I will let him tell that in his own way. I am not a witness. What did you know about his being stopped?

Secretary BRYAN. I can not say that he started, Mr. Smith. I know that it was discussed, and I think I asked whether they would postpone the matter long enough for him to go there. But they had become convinced that the Brown contract was better than the Jarvis contract.

Senator SMITH of Michigan. Then you personally know nothing about his being stopped?

Secretary BRYAN. I can not answer positively whether he started or not. I only know they made some request about sending a man down there, and that it fell through, but whether he actually started or not I can not say.

Senator SMITH of Michigan. Whether he was stopped by the department or by anyone in the department?

Secretary BRYAN. It would not be in the department unless it was a notice from them that they would not accept his contract.

Senator WILLIAMS. When you say "notice from them," you mean from the Nicaraguan people?

Secretary BRYAN. Yes; we could only act for them. We had no way to ourselves.

Senator SMITH of Michigan. That came out incidentally. I did not intend to bring that out, except as to your own suggestion. I should like to ask Mr. Douglas whether or not a strong opposition to the present bankers operating in Nicaragua by the Nicaragua people is general?

Mr. DOUGLAS. I think there is some opposition.

Senator SMITH of Michigan. Am I using too strong a word when I say there is strong opposition?

Mr. DOUGLAS. I think there is some opposition to them.

Mr. DOUGLAS. I think that is correct.

Senator SMITH of Michigan. As a matter of fact?

Mr. DOUGLAS. Pardon me one minute, Senator. I do not want my answer to carry with it the suggestion that the people universally or generally are opposed to the bankers. I do not know whether they are or not.

Senator SMITH of Michigan. As a matter of fact, the present Government down there was elected by about 15 per cent of the total vote, more or less, was it not?

Mr. DOUGLAS. I do not know.

Senator SMITH of Michigan. And could only be elected by the presence of marines there? Are you willing to admit that?

Mr. DOUGLAS. I do not know. I have no reason to believe that is true.

Senator O'GORMAN. Have you any impression on that subject?

Mr. DOUGLAS. My impression is that it is not correct. I do not know.

Senator SMITH of Michigan. Has the present treaty with Nicaragua been ratified by the Assembly of Nicaragua?

Mr. DOUGLAS. The treaty that was drafted last summer was ratified by the assembly.

Senator SMITH of Michigan. This treaty we are now considering, has that been ratified by the assembly?

Mr. DOUGLAS. I say that the draft of the treaty which was submitted by Mr. Bryan informally to this committee was ratified by the Congress of Nicaragua last summer. I have a draft of that treaty and I have a draft of the one we now submit, and it does not differ very essentially from the other. I can give you both of them. And I have one here that was submitted before. It shows the source of each and every provision in the treaty, gives what part came from the old Knox treaty.

Senator SMITH of Michigan. We have that.

Mr. DOUGLAS. That is not in this paper.

Senator SMITH of Michigan. I understand. I do not think this treaty has been ratified by the assembly.

Mr. DOUGLAS. I think not.

Senator WILLIAMS. Has it been submitted?

Senator SMITH of Michigan. No; I do not think any assembly has been chosen yet. The other was dissolved?

Mr. DOUGLAS. No, sir; it is not.

Senator SMITH of Michigan. By President Diaz?

Mr. DOUGLAS. No, sir; they adjourned subject to call. He informed us he would call the Congress together in special session whenever the Senate of the United States passed on this treaty. He did not think it worth while submitting any more treaties to the Congress of Nicaragua until he could see what the United States proposed.

Senator SMITH of Michigan. Do you know whether the difference between Jarvis & Co. and Brown Bros. was composed by the understanding that Jarvis & Co. should continue to operate without opposition in Santo Domingo and Brown Bros. in Nicaragua?

Mr. DOUGLAS. I will answer that question in this way. In the first place, I never knew or heard heretofore the suggestion of any difference between them; hence I therefore never heard of any suggested division of territory between them. It is all news to me, absolutely.

Secretary BRYAN. And if you will allow me to say—you speak of an agreement—allow me to say that if there was any such an agreement it must have been between Brown Bros. and Jarvis themselves, because I have never heard of any such.

Senator SMITH of Michigan. I do not suppose you have, Mr. Secretary. I would not make any such suggestion.

Secretary BRYAN. And I never heard of Brown Bros. being interested in Santo Domingo.

Senator POMERENE. Jarvis & Co. were interested in Santo Domingo?

Senator SMITH of Michigan. They are running the banks and are substantially in control of the customhouses, as Brown Bros. are in control of the customhouses of Nicaragua. Do you not know that the minister at Managua advised the State Department that the national railroads of Nicaragua were worth more than \$4,000,000?

Mr. DOUGLAS: I do not know what he advised the State Department. I know that Mr. Bryan stated, not once but several times, that he was under the impression that a valuation of \$2,000,000 was too low for the railroads. And he did everything in his power, in my judgment, to prevent Brown Bros. availing themselves of this offer.

Senator SMITH of Michigan. As counsel for Nicaragua, you advised that the contract for the sale of 51 per cent of the stock of the national railroad be complied with?

Mr. DOUGLAS. I do not understand the question.

Senator SMITH of Michigan. You recommended that the contract between the Government of Nicaragua and Brown Bros. for the sale of 51 per cent of the stock of the national railroad be complied with; that it was a binding obligation upon Nicaragua?

Mr. DOUGLAS. I so expressed myself.

Senator SMITH of Michigan. And did you have anything to do with the loan of the \$1,000,000 upon the other 49 per cent of the stock?

Mr. DOUGLAS. I helped Mr. Cuadra. I think I helped him substantially to get that loan.

Senator SMITH of Michigan. You did not know as to the actual value of the railroad at that time?

Mr. DOUGLAS. No, sir; I have never been in Nicaragua. I will state this much, that Gen. Chamorro, the minister here, and Mr. Cuadra, both stated that they thought that 51 per cent of the railroad was worth more than \$1,000,000, and they conferred back and forth by cable with President Diaz, and President Diaz stated what he thought the railroad was worth—something more than that—that, everything considered, it would be better for the railroad and better for Nicaragua for the railroad to sell the bankers 51 per cent. You will find telegrams on file in the State Department, no doubt, to that effect.

Secretary BRYAN. That may be. Both approved of the sale.

Mr. DOUGLAS. Both approved absolutely, and so did the President of Nicaragua.

Senator SMITH of Michigan. I believe you stated day before yesterday that the present President of Nicaragua was a secretary of an American company operating in Nicaragua at the time he was made Vice President?

Mr. DOUGLAS. Senator, some one asked me that question.

Senator SMITH of Michigan. I asked the question.

Mr. DOUGLAS. But as I never saw Mr. Diaz in my life I could have had no knowledge whatever as to what had been his previous occupation. I told you I had heard so, in response to a question from you whether I had heard it.

Senator SMITH of Michigan. As a matter of fact, he was a bookkeeper in this Pittsburgh company?

Mr. DOUGLAS. Yes; but I know nothing about it.

Senator O'GORMAN. What is the Pittsburgh company?

Senator SMITH of Michigan. It is a corporation operating mining property in Nicaragua, and he was a bookkeeper or secretary at a salary of \$1,000 a year when he was made Vice President.

The CHAIRMAN. Do you know who constituted that concern?

Senator SMITH of Michigan. No; but I know some of the men, but I prefer to get them all. I am going to have them all. Do you know the part that the American minister took in the selection of Mr. Diaz as President?

Mr. DOUGLAS. No, sir; absolutely nothing.

Senator SMITH of Michigan. Have you ever heard that the American minister participated in a council of state down there at the time of the selection of a president to take the place of Estrada? *

Mr. DOUGLAS. No, sir.

Senator SMITH of Michigan. And that after the assembly had decided to vest this power in one of their own citizens, the American minister said, "That will not be acceptable; no one will be acceptable to the American Government but Adolphus Diaz." Did you ever hear of that? *

Mr. DOUGLAS. No, sir; I never heard it suggested before.

Senator WILLIAMS. Who was the American minister then?

Senator SMITH of Michigan. Mr. Weitzel.

Secretary BRYAN. What year was that, Senator?

Senator SMITH of Michigan. It antedated your incumbency. You never knew about that at all?

Mr. DOUGLAS. Nothing; absolutely.

Senator HITCHCOCK. Was Diaz elected President, or did he succeed to the presidency because he was Vice President?

Senator SMITH of Michigan. Under the constitution of Nicaragua, whenever a president desires to absent himself from his post or lay down his office, he may, under a clause of the constitution, designate some one to take his place, and that some one holds his place until the council of state meets and selects his successor, if his absence is continued. Diaz was Vice President and was so designated by Estrada at the time of the landing of our marines in Nicaragua.

Senator HITCHCOCK. When was that?

Mr. DOUGLAS. That was in President Taft's administration.

Senator HITCHCOCK. Has he no other title than that?

Senator SMITH of Michigan. Than what?

Senator HITCHCOCK. Than being designated.

Senator SMITH of Michigan. He has title because he was afterwards elected by a little over 10 per cent of the vote down there while our marines occupied the palace at Managua and our naval vessels were in several ports of that country.

Senator SMITH of Arizona. What proportion of that vote was cast at the presidential election?

Senator SMITH of Michigan. A small part of the nonliberal party vote.

Senator HITCHCOCK. Was it a regularly called election?

Senator SMITH of Michigan. It was not. It anticipated the legal election by quite a number of months; therefore, was held to be unconstitutional by quite a good many people.

Senator POMERENE. Do you claim it was unconstitutional?

Senator SMITH of Michigan. It has been so stated. I want to take this up later, when we get through with Mr. Douglas.

Senator POMERENE. All right.

Senator SMITH of Michigan. The National Railway of Nicaragua runs about 125 miles from Corinto to Managua?

Mr. DOUGLAS. It runs from Corinto to Managua, then to Granada on the lake.

Senator SMITH of Michigan. That railroad was the most valuable asset the Nicaraguan Government had at the time of the sale, was it not?

Mr. DOUGLAS. I could not answer that question, Senator. It was not very valuable the way it was being operated.

Senator WILLIAMS. It was being operated at a loss at the time, was it not?

Mr. DOUGLAS. Before the bankers took hold of it it was a railroad more in name than in fact.

Senator SMITH of Michigan. Who decided that \$3,000,000 was the proper consideration to be paid for these treaty rights?

Mr. DOUGLAS. As that antedated my connection with Nicaragua about three or four years, and happened during the incumbency of Secretary Knox and while Castrillo was minister, I naturally would not know anything about it. We found that in the proposed treaty when I came on the scene.

Senator O'GORMAN. You never heard how that figure was tentatively reached?

Mr. DOUGLAS. Not at all, Senator.

Senator SMITH of Michigan. Have not the Governments of Honduras and Salvador contended that Nicaragua, without their consent, has not the power to grant a naval base in the Bay of Fonseca?

Mr. DOUGLAS. I have seen such statements in the newspapers.

Senator SMITH of Michigan. That came to your notice?

Mr. DOUGLAS. That is all.

Secretary BRYAN. That was only from Salvador, not Honduras.

Senator O'GORMAN. Have you ever looked into the merits of their claim and advised Nicaragua in relation thereto?

Mr. DOUGLAS. No, sir; I understood the matter was referred to the State Department to Mr. Moore, and Mr. Moore passed upon it and advised the State Department with reference to it. My information, Senators, is that the portion of the Gulf of Managua that lies south, and therefore contiguously to the coast of Nicaragua, by agreement of the three countries belongs to Nicaragua.

Senator SMITH of Michigan. Is it not intended to use a portion of the \$3,000,000 contemplated to be paid under this convention to build a railroad from Managua to some point on the Caribbean Sea?

Mr. DOUGLAS. I never heard the thought expressed before.

Senator SMITH of Michigan. Have you never heard of a concession to build such a railroad to any private parties or company?

Mr. DOUGLAS. The only concession I have any recollection of now is one that really belongs to the present railroad itself. I think it has a right to build a railroad across to the Atlantic coast somewhere near the mouth of the San Juan River. I do not recall any other concession now. It would be interesting to state in this connection to the committee about the concession from San Juan del Norte to San Juan del Sur on the Pacific coast, a distance of about 14 or 15 miles, the nearest point from the great lake of Nicaragua to the Pacific coast. There is an outstanding concession to build that railroad, which would connect the present railroad with it at Granada.

Senator SMITH of Michigan. Is that concession under Brown Bros.?

Mr. DOUGLAS. No, sir; the present railroad, 49 per cent of which is owned by the Government, asked for that concession and we found there was one outstanding concession to three individuals.

Senator SMITH of Michigan. Who are they; do you know?

Mr. DOUGLAS. I do not remember their names, but their names can be furnished by Mr. Cuadra. The Government could not grant that concession to Brown Bros. or to the railroad until outstanding concessions were disposed of in some way. They are not yet disposed of.

Senator SMITH of Michigan. Did not the Knox-Castrillo treaty provide for that concession?

Mr. DOUGLAS. I do not remember, Senator. I should have to look at it to see.

Senator SMITH of Michigan. In your opinion, could the treaty in its present form be passed by the Nicaraguan National Assembly in case the United States marines are withdrawn before that takes place?

Mr. DOUGLAS. I would have to answer that question in this way: I have never believed, although my information may be entirely inaccurate—I have never believed that the presence of the marines there affects, or would affect, the ratification of the treaty any way whatsoever.

Senator O'GORMAN. Do you know why they are kept there?

Mr. DOUGLAS. I think they are kept there, first, because they were put there, and then I think the present administration prefers that they should remain there, because they aid them in preventing uprisings. To say that there are uprisings threatening there at almost all times would not be an exaggeration.

Senator SMITH of Michigan. Uprisings are specially threatening to the Diaz government; is not that so?

Mr. DOUGLAS. I do not think so. I took occasion to inquire since the last meeting into the present political complexion of the two branches of the commission. I think out of 28 members the senate has 22 or 23, of the Conservative Party—that is the same party that President Diaz is a member of—and about 5 or 6 of the Liberal Party; and of the lower house, called House of Deputies, out of some thirty-odd—28, I think—only about 4 or 5 are of the Liberal Party, and all the others are members of the Conservative Party, to which President Diaz belongs.

Senator HITCHCOCK. When were they elected, Judge?

Mr. DOUGLAS. The last two years, perhaps.

The CHAIRMAN. At the same time as Diaz?

Senator SMITH of Michigan. Yes, sir.

Mr. DOUGLAS. I think so. There have been some elections since, I think, to fill vacancies.

Senator POMERENE. How do you account for the small vote of 10 per cent?

Senator WILLIAMS. That is true in all those countries.

Mr. DOUGLAS. I have no idea. In fact, I did not know that was correct. I do know that President Diaz succeeded Estrada—I mean he practically succeeded him—and I know the party that drove Salida out of Nicaragua is the party in power there now, and I think it is no exaggeration to say that no ruler has ever ruled in that country who was more of a fiend incarnate than was Salida, and I

can not imagine therefore why the people of Nicaragua would not be standing as a man behind President Diaz, because he represents the very opposite.

Senator SMITH of Michigan. Why not let the marines go away?

Mr. DOUGLAS. I am asking, as counsel for Nicaragua, that the marines be kept there.

Senator SMITH of Michigan. You said this morning there were about 100 marines?

Mr. DOUGLAS. That is my information.

Senator SMITH of Michigan. As a matter of fact, there were 2,000, were there not, at the time of landing and for upwards of two years, and they occupied the palace, did they not?

Mr. DOUGLAS. They may have, Senator. I will state frankly to the committee that I never studied the history in detail of the landing of the marines there. I took Nicaraguan conditions as I found them, of course going into historical matters in so far as I thought they would throw light on the proper discharge of my duties; but I am mixed in the political affairs of Nicaragua; I have not the slightest interest in who is or who is not President. I do not care anything about it at all.

Senator POMERENE. These marines were kept there at the instance of President Diaz, were they not?

Mr. DOUGLAS. I do not know, Senator. I think perhaps at one time there was some suggestion about their removal, and President Diaz asked that they remain there. I do not think there has ever been any serious discussion of it one way or the other.

Secretary BRYAN. I can answer that.

Mr. DOUGLAS. Yes; I think the Secretary can tell more about it than I can.

Secretary BRYAN. I can not give the exact number. My recollection is there are 80. I can find out what the number is, and the Government has expressed a desire to have them remain there.

Senator O'GORMAN. Did we have as many as 2,000 there at one time, Mr. Secretary?

Secretary BRYAN. That I can not say; but if so that was some time ago. We have not had any change in the numbers since I have been connected with the office.

Senator SMITH of Michigan. That was about the time of the election. I think that is all I care to ask about.

Mr. DOUGLAS. I will be here subject to the call of the committee if anything occurs in the future.

Senator WILLIAMS. Is it not true that all these countries, with probably the exception of Costa Rica, that there are about 15 to 25 per cent of the people who are politicians—that is, people who engage in politics, and the balance do not do anything, and these politicians always fight it out between themselves as to who shall have the government?

Mr. DOUGLAS. That would be my impression.

Senator WILLIAMS. That is about my understanding of the situation down there. The other people go quietly about their business, even when one crowd comes into town to turn the other crowd out; they simply shut up shop and come back again the next morning.

Mr. DOUGLAS. I should like to make this general statement to the committee. When your testimony shall all be in I should like to have

the privilege then of stating in a consecutive way the real reasons why we feel this treaty ought to be ratified, because it is impossible to state any view with so much information asked for, and very pertinent information, but when this evidence shall be in I trust I shall be permitted to make a general statement of the reasons why I am here to urge the ratification of this treaty.

Senator O'GORMAN. Could you not state that briefly?

Mr. DOUGLAS. Yes, sir.

Senator O'GORMAN. I think that was the suggestion of Senator Saulsbury at the last session.

Mr. DOUGLAS. But I want to state this much in reference to the Platt amendment now, so that there may be no misunderstanding about it. While Nicaragua wants it, and in my judgment needs it; while we believe it is best for both Governments that it should be there in some form of convention, expressed in some words which will really give the power to the United States to preserve order in Nicaragua, I am authorized by President Diaz to say, and by the minister here, that Nicaragua is not in the position of urging or begging or entreating the United States to take that power and responsibility upon herself. If she does not want it, why Nicaragua has nothing to do but to say, "Strike it out." But I am authorized to say that Nicaragua will not be put in the position of urging the United States to take upon herself the responsibility of the Platt amendment. She thinks it is infinitely better for Nicaragua if it is put in; also, so far as Nicaragua has a right to express any view about it, she thinks it better for the relations of the two countries; but Nicaragua does not insist upon it, does not urge it, but is perfectly willing it be stricken from the treaty. And I think with it would go the two deciding articles.

Senator POMERENE. Would this Platt amendment in anywise conflict with existing relations between Nicaragua and any of her neighboring Republics?

Mr. DOUGLAS. I do not so construe it, Senator. I do not so understand it.

Secretary BRYAN. And we have no objection to anything being put in that will save that, if you desire.

Mr. DOUGLAS. Yes; we are perfectly willing to do that. For instance, if this question of the union of Central American countries shall hereafter arise and Nicaragua wants to do so, we are willing to put a clause in the treaty reserving to Nicaragua the right to do so, which automatically shall relieve it from responsibility for the Platt amendment.

The CHAIRMAN. Do you desire to make a statement to the committee at any time, Mr. Secretary, on this subject?

Secretary BRYAN. Mr. Chamorro and Mr. Cuadra will be here and others.

Senator O'GORMAN. When?

The CHAIRMAN. We will fix that date.

Secretary BRYAN. I should like to add one thing here in order that the day's record may be correct. Senator Smith made some remark in regard to Jarvis's bank having control of matters in Santo Domingo. He has been misinformed. The Jarvis bank has the deposit of the funds collected by the receiver. The Jarvis bank has

loaned the Government a considerable sum of money, but the Jarvis bank has nothing whatever to do with the collection of the customs.

Senator SMITH of Michigan. They hold them in their bank?

Secretary BRYAN. They simply hold them when deposited, but have absolutely nothing to do with their collection.

Senator SMITH of Michigan. Who collects them?

Secretary BRYAN. The receiver under the War Department, Mr. Vick.

Senator O'GORMAN. He deposits them at this Jarvis bank?

Secretary BRYAN. The depository.

Senator HITCHCOCK. He could deposit them anywhere?

Secretary BRYAN. He could deposit them anywhere. In fact, there is discussion now as to the propriety of making a change in the depository.

Senator O'GORMAN. There are other American bankers?

Secretary BRYAN. No; this is the only—well, this is not what you might call an American bank. Mr. Jarvis holds about 40 per cent, and other Americans, I think, own enough to make a majority. The French own, I think, 40 per cent, and then there are other foreigners, I believe. It is not fair to call it an American bank, because it is a bank chartered by Santo Domingo.

Senator O'GORMAN. Under American influence?

Secretary BRYAN. Largely controlled, and the Jarvis interests control the bank, but they have nothing to do with the customs, and they simply take the money that is deposited, and they have loaned the Government of Santo Domingo.

Senator WILLIAMS. It is just a depository of the receiver?

Senator SMITH of Michigan. How much have they loaned to the Government?

Secretary BRYAN. The present loan is about \$500,000.

The CHAIRMAN. Is that all you care to state?

Secretary BRYAN. That is all on that particular point. I just wish to say in regard to the Platt amendment that the President believes that the incorporation of the Platt amendment will be advantageous to Nicaragua and will not be harmful to the United States, and he is perfectly willing that this shall be incorporated. In fact he thinks that it will give stability there, and that without incurring any danger or putting us to any considerable expense it will be of value to them in preventing revolution. It is not intended to keep this Government in power or any government in power. It provides for the supervising of elections, if necessary; not that we must do it, but that we may do it. And the only time the Platt amendment in Cuba has been used since we withdrew was in the supervising of an election, and that is the trouble in all of those countries. A man gets in and then he holds himself in or his party in by the domination of elections, and this clause about free elections we regard as quite important.

But if the committee is opposed to the Platt amendment the President is in favor of the treaty anyhow. If the committee thinks that this Government ought not to assume that position or take upon itself that responsibility—if the Government thinks it ought not to do in Nicaragua what it is doing so successfully and so beneficially in Cuba—then the President is in favor of this treaty anyhow, because he believes that it is worth while to purchase the canal route, the

option on it, and the Fonseca Bay site; but he would be perfectly willing, and believes it wise to go to the extent of the treaty and include this provision that restricts them as to the loans that they can make, and by giving a stability to their Government to enable them to borrow money on better terms. This \$3,000,000 would pay off that much of this \$5,000,000 mentioned as pressing, and the Platt amendment would then enable them to get whatever more they need on better terms, because it gives standing and credit.

Senator WILLIAMS. Do you not think the very worst day's work we could do for those people would be to lend them an additional credit?

Secretary BRYAN. Not if we restrict it, Senator Williams. We have this restriction in there, which while we extend their credit we make it impossible—

Senator WILLIAMS. Fix them so they will have to proceed upon a cash basis. Every little revolutionary government that gets in borrows more money and mortgages the property of the Government.

Senator O'GORMAN. Do you not think this new relation will put an end to revolutions in this country?

Senator WILLIAMS. No; I should think it would stir up one big revolution to start with if there is any manhood in Nicaragua. They would simply say, "Here is a Government that has given away the sovereignty of her country, and has made a foreign country an election commission for us, and given it the right to intervene whenever it pleases. Let us see if we can not overthrow it." After that one revolution—after we had killed off the revolutionists—there would not be any more.

Senator O'GORMAN. You did have twice at Warsaw.

Senator HITCHCOCK. What will happen, supposing this treaty fails?

Secretary BRYAN. I am not in position, of course, to make a prediction, but I know that for months we have been urged most insistently to bring this treaty before the Senate, and we have only delayed because of matters of domestic importance that prevented consideration. That was the reason why it was withdrawn at the time it was. It was not that the President changed his views on the subject, but he saw it was impossible to consider it without interfering with things that were of domestic importance; but the Nicaraguan people feel that if they do not get this that they are going to be in a very serious position. What the outcome might be I would not be able to predict. I do not suppose anyone could.

Senator HITCHCOCK. This mortgage on the railroad and on the bank would be foreclosed?

Secretary BRYAN. Unless they could borrow money somewhere to prevent it, or extend the time of this loan. And the foreign nations are pressing. I have urged in one case that they do not press their foreign claims, telling them that we expected to present this treaty and that out of this fund there would be enough money to pay these foreign claims.

Senator SMITH of Michigan. How do you know it would go to them? It goes to Cuadra and he is permitted to do what he pleases with it. Supposing Congress should determine the Italian claim, and the German claim, and the English claim should be paid by this Government direct to those people?

Secretary BRYAN. I would not object, but I want to remind you that when we brought this treaty in here before we provided that this money should be paid out upon the joint authorization of these two countries, and objection was made to it.

Senator SMITH of Michigan. By whom?

Secretary BRYAN. And we struck that out. I am not sure who made that objection. We struck that out.

Senator WILLIAMS. There were objections made. But they were on different grounds. I objected to that myself because that involved us just like the Platt amendment would to a certain extent. But a direct provision in the treaty that so much of this should be paid on certain claims, and that the United States should pay it, that would not be a question of our—

Secretary BRYAN. We have no objection whatever to any proposition put in here that will compel the use that this Government wants made of it, because if such provisions are put in and the other people are not willing to have it paid as we want it paid, it is not necessary for them to accept it, and the trade can fall through.

Senator WILLIAMS. Of course.

Secretary BRYAN. I have tried to make some of these qualifications, and had to strike them out because of objections.

Senator WILLIAMS. You misunderstood the previous objection. The previous objection was on account of complications.

Secretary BRYAN. There was one matter of education in there. I was anxious that a part of this fund should go to education, but I found the needs were so pressing, that the debts here were so urgent that I had to give up my preference for a fund to establish educational institutions and leave that to come after they are in better shape.

The CHAIRMAN. Whom will you ask to come next?

Senator HITCHCOCK. Mr. Cuadra.

Senator O'GORMAN. My motion was that the two representatives of Nicaragua be invited to come before us, together with an interpreter, at our next meeting.

Secretary BRYAN. To-morrow morning is Cabinet meeting. I should like to be here.

Mr. DOUGLAS. I do not know whether it will make any difference, but it will be impossible for me to be here Tuesday or Wednesday morning.

Secretary BRYAN. I can come Wednesday morning.

Senator HITCHCOCK. Why not make it at our regular meeting, on Wednesday?

Senator O'GORMAN. Our purpose in having these two representatives of the Nicaraguan Government come before us is to give us information they possess. I do not know that it is necessary for either Secretary Bryan or Judge Douglas to be present.

Mr. DOUGLAS. I do not think so. I would rather they should come alone.

Secretary BRYAN. I do not mean that it is necessary for me to be here, but I am interested in all that is going on.

Senator WILLIAMS. As to that, you can come back Wednesday. They can come to-morrow morning.

The CHAIRMAN. I will invite them to come to-morrow morning at 10 o'clock. I want to ask you, Judge Douglas, shall I ask in my

letter that they shall make a concise and detailed statement of the indebtedness of Nicaragua, with some information showing what each is based upon?

Senator O'GORMAN. If you will allow me to suggest, Mr. Chairman, that Judge Douglas might convey the hint to them as well as the invitation to come, to prepare to-day and have ready to leave here to-morrow morning a written statement covering the financial situation in Nicaragua, which they will supplement with such questions and answers as may be elicited here.

The CHAIRMAN. I had in my mind those should be written.

Senator POMERENE. Judge Douglas, I should like to know in that connection what the Nicaraguan Government in fact realized out of that Echelburger loan?

Mr. DOUGLAS. Yes.

Senator WILLIAMS. Ask that from Brown Bros. & Seligman.

The CHAIRMAN. I will send a note inviting these gentlemen to appear.

Thereupon, at 12 o'clock m. the committee adjourned until to-morrow, Tuesday, June 23, 1914, at 10 o'clock a. m.

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CONFIDENTIAL

Chamorro

HEARING

BEFORE THE

**COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE**

SIXTY-THIRD CONGRESS

SECOND SESSION

ON

**CONVENTION BETWEEN THE UNITED STATES
AND NICARAGUA**

PART 3

Printed for the use of the Committee on Foreign Relations



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1914

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CONVENTION BETWEEN THE UNITED STATES AND NICARAGUA.

TUESDAY, JUNE 23, 1914.

COMMITTEE ON FOREIGN RELATIONS,
UNITED STATES SENATE,
Washington, D. C.

The committee met at 10 o'clock a. m. pursuant to adjournment.

Present: Senators Stone (chairman), Shively, Hitchcock, O'Gorman, Willaims, Pomerene, Smith of Arizona, Saulsbury, Smith of Michigan, and Sutherland.

The CHAIRMAN. The committee will come to order. Gen. Chamorro, the minister of Nicaragua, is present, and the committee will be glad to hear him.

**STATEMENT OF EMILIANO CHAMORRO, ENVOY EXTRAORDINARY
AND MINISTER PLENIPOTENTIARY OF NICARAGUA TO THE
UNITED STATES (THROUGH INTERPRETER JOSÉ L. LIVING-
STON).**

The CHAIRMAN. Please state your name and official position.

Gen. CHAMORRO. My name is Emiliano Chamorro; I am minister of Nicaragua to the United States.

The CHAIRMAN. Mr. Minister, will you make any statement you desire to the committee?

Gen. CHAMORRO. I have brought a statement here in writing referring to this treaty, and will be pleased to answer any questions that the committee may desire to ask.

The CHAIRMAN. The statement will be read.

(Senator Williams read the statement, as follows:)

MEMORANDUM PRESENTED BY THE MINISTER OF NICARAGUA TO THE COMMITTEE ON
FOREIGN RELATIONS OF THE SENATE.

The fact that you gentlemen have permitted me to come before your committee is an honor that I much appreciate, and in addition it gives me the opportunity to explain the real truth about certain conditions in my country.

I shall, therefore, take pleasure in being absolutely frank with you, for I am informed that these sessions are private, and this fact enables me to speak with freedom. It is a matter of regret that some of the things I tell you wound my national pride, but only by giving the truth will you be able to comprehend the serious situation which confronts my country.

Through the medium of a revolution Gen. José Santos Zelaya reached the Presidency of Nicaragua in 1893, after a period of 30 years of peace, in which the seven Presidents succeeded themselves peacefully through the medium of free elections, which obtained at that time under conditions similar to those of Costa Rica to-day.

Gen. Zelaya changed the alternability of the Presidency and the freedom of suffrage, establishing a despotic system, declared horrible persecutions against

his political enemies, whose property he confiscated against all law, placing them chained in the penitentiary, and practiced horrible outrages against them.

After a few years in power he woke to a desire for riches such as was never before known in my country, wanting to convert all the revenues of the country for his personal benefit, established monopolies, and gave concessions, which he placed in the hands of foreigners, he gaining the most benefit. Most of the industries of the country thus came under Zelaya's control; the foreign management of most of them prevented the native Nicaraguan from perceiving any benefits worthy of mention from the working of these industries and monopolies. Zelaya's system worked incalculable harm to our struggling industrial classes. Coupled with the fact that Zelaya enriched himself from the Government funds by taking millions of dollars in gold, this condition became intolerable, and the revolution of October, 1909, against Zelaya's government was the result.

The Government of the revolution which overthrew Zelaya promised to end all monopolies and concessions and to return all properties confiscated and the thousands upon thousands of fines taken from a great number of Nicaraguans as political punishment. In one word, it was promised that the new Government would be one of reparation.

The new Government was not recognized by the American Government until it guaranteed that it would establish constitutional order and put the country on its way to development, and that it would investigate the deaths of Cannon and Gross.

In order to fulfill said program there was signed between the chiefs of the revolution and the American commissioner, Mr. Thomas Dawson, on the 30th of October, 1909, a convention in which said chiefs agreed to call the people together for a free election to elect deputies for a constitutional assembly, which, besides forming the political constitution of the Republic, would elect for a period of two years a President and Vice President, name a mixed claims commission to study all claims, monopolies, and concessions, to put the country on an economic basis for its development through the medium of a foreign loan. In order to attain these ends the American Government promised its best offices.

The chiefs of the revolution of 1909 have cooperated actively to fulfill said convention, and in effect the people held a free election for deputies, and on the 15th of December, 1910, there was inaugurated the Assembly in Managua, who elected Gen. Estrada and don Adolfo Diaz as President and Vice President of the Republic for the period of two years.

At once the Assembly proceeded to form the constitution, but when it proceeded to sign it the Assembly was dissolved by a decree of President Estrada, which was done by surrounding the Assembly chamber with armed men.

Gen. Estrada, who had been a military chieftain, stationed under the Zelaya Government at Bluefields, was one of the leaders of the revolution. After he became president it became apparent that he had not the required amount of political support to govern to advantage. The Conservative Party had the lead and won the revolution. Estrada, to strengthen his popularity, endeavored to draw political support from the Zelaya party (Liberal), and this led to complications which caused him to resign the presidency on May 8, 1911. As a result Adolfo Diaz, the vice president, became president, which office he now holds.

The Mixed Claims Commission was established and all claims comprehended in its creation have been submitted to its decision.

The Government initiated friendly negotiations for the settlement of the shooting of Cannon and Groce, and it was settled by awarding each one of the families of the deceased a payment of \$10,000 gold.

The chief efforts of the Government of Nicaragua has been the improvement of the financial situation; but as yet nothing permanent has been done, as the bankers have not wanted to enter into formal negotiations for a loan sufficient to care for our country's needs without having the security that the Republic will continue in peace.

At the beginning of our efforts to obtain a loan there was drafted a contract on very good terms for Nicaragua for a loan of \$15,000,000, based on the ratification of the convention signed on June 6, 1911, by Secretary of State Knox and Dr. Castille, minister of Nicaragua. As said convention was not ratified by the American Senate, the negotiations failed, and so we had necessity to a small loan of a million and a half at one time and another time \$750,000, with the same guarantees that we had offered for the \$15,000,000. Said loan was made with the idea of establishing a bank and to place our depreciated

paper-money system under a basis solid and firm. To study these economic problems we brought to the country two financial experts, Mr. C. A. Conant and Mr. F. C. Harrison, the first an American and the second English, each one earning \$10,000 gold for their services, and they left us with the gold standard established. After the examination of our monetary affairs by the English and American experts mentioned, we followed their recommendations in so far as possible by establishing a bank and issuing a new standard of exchange which we call "cordoba," this being the only money in Central America which has the same value as your American dollar.

It may be said that we had enjoyed a little over a year of comparative peace when one of our party, Gen. Mena, the minister of war, ceased to work in harmony with President Diaz, and he began a revolution on July 29, 1912. The Diaz Government quickly increased its army, which valiently fought without pay until October 10, 1912, at which time the government was victorious. We then borrowed \$400,000 with which to pay off our troops.

These various amounts taken together made a total of \$2,650,000, which was being repaid to the bankers by their collecting the customs. When I came to your country, about a year ago, we owed the bankers a balance of some \$700,000, for the repayment of which they had given us an extension of time to October, 1913.

The revolution against Zelaya had cost us a great deal, and when we took over the country it was in a deplorable financial condition. Our prompt action in trying to get quickly on a firm financial basis, and the war against Mena, has brought the country into a situation very difficult to describe. We had followed the recommendations of your country very faithfully, but the failure of the passage of the canal convention prevented us from getting a large loan, and so in the hope of your Senate giving this convention favorable consideration, we entered into an agreement with the bankers whereby they exercised an option which they had on 51 per cent of our railroad, and they took an interest in our bank. Mr. Bryan opposed the exercising of the option on the railroad so vigorously, and in this Mr. Long and others in the State Department supported him so consistently, that week after week passed by in an effort to secure an arrangement that the State Department thought would be more favorable for Nicaragua. President Diaz, however, favored permitting the bankers to exercise their legal right to the 51 per cent of the railroad, with the result that the contract was closed in October. This merely furnished us with temporary relief, and we are now desirous that you should understand our needs so that you may see why our country, whose natural resources are very great, desires the passage of the canal convention with the Platt amendment attached. When free suffrage is assured our future is certain for our people, so long oppressed, are anxious to progress. Bankers, who have had a knowledge of our methods, will gladly lend us the necessary money when they feel sure we are to have peace and fair elections, and so we have requested the President to submit to your favorable consideration the convention which is before you.

Should this treaty not be accepted under the belief that it would not be a benefit to my country, it would be an immense damage, greater than any so far registered in its history, only less than the war known as "the Walker War," which, besides the immense loss of lives and its resources, also contributed to a loss of a great part of its territory. The ratification of this treaty would save us the loss of 49 per cent of the stock of the railroad, and 49 per cent of the bank stock, as for the reason we did not pay on time the money we owed we had to deliver the 51 per cent now held by the bankers.

The abolishment of the monopolies and concessions have occasioned claims from foreign Governments, which our Government had arranged on satisfactory terms, but their payment is still pending, and it can bring upon us international complications from England, Germany, and Italy. Amongst these nations it is to be noted the pressure exerted by Germany for the payment of the claim of Mr. Weist, a German subject, lessee of the railroad. In order to terminate said lease it was necessary to recognize as due him \$176,000, although the said lessee was only a figurehead for Zelaya; many efforts have we made to obtain from Germany an agreement to wait until the result of the convention is known.

We consider the leasing of the Gulf of Fonseca for a naval station, on the Nicaraguan territory, and the leasing of the islands on the Atlantic coast as stated, and the canal option as worth more than \$3,000,000, but we are satisfied to receive said sum, on condition there is guaranteed us the maintenance of peace and the public and private rights of its citizens, and if we

have asked for this and we desire it, it is because of the enormous development under said auspices of Cuba. For this reason President Diaz has asked for the inclusion of the Platt amendment.

I wish to state that our President is a duly constituted President under the present constitution in virtue of a free election, and that the permanency of occupation of some American troops in some of the cities had nothing to do with the election, as can be proved by his losing the election in the Departments of Bluefields and Granada, where my constituents, notwithstanding my desires, refused to vote for him.

I desire also to state that the motive of the greater part of the revolutions in Nicaragua are not made by the desire of gain or for personal ambition, but only for the lack of individual guarantee and the lack of suffrage; a small illustration of this will give you an idea.

With your permission, I would like to refer to the custom that has usually prevailed in the elections of our members of Congress. We have two houses, the House of Representatives, with 40 members, and the Senate, with 22 members. The President during election time selects the men in whom he has confidence. The names of these men are sent out to the departments with certain instructions and the gentlemen are elected. The people of a department usually never even see the candidates; the people do not know anything about the candidates except their names and what they are told, consequently they do not pay any attention to the elections. Elections held in this manner take all the heart and interest out of the people. Suppose, Senator Stone, that the next time you come up for election the President desires to have one of his absolute friends from the District of Columbia as Senator from your State, and suppose, Senator Shively, that the President desires another of his friends as Senator from Indiana, and that he will not permit either of the present Senators to be candidates for reelection in your respective States, and that he gives instructions to the people who have been accustomed to vote for you to the effect that they must follow the instructions or go to jail. Your constituents do not like the idea of going to jail, so they vote for the man the President designates, and you gentlemen lose your positions. The people who really wished to vote for you were afraid to do so, and they elect to the Senate a man who knows nothing of your department and has little interest in its needs.

Such a thing is what often happens in my country, and until it is remedied and the people really have some opportunity to express their wishes at the polls I do not see how we can expect much through the exercise of suffrage. That is one of the things this treaty asks you to help us to do, to hold honest elections. Your country has done it in Panama, and still Panama was never more friendly to your Government than Nicaragua is now.

Your country is strong and ours is weak. We ask your aid in this matter of suffrage. There was a time when your country was not so strong as it is to-day, and France extended to you its aid. We believe that with the Platt amendment attached to the canal convention our professional politicians, who too often resort to revolutions because there is no justice in the polls, will cease to engage in revolutions, because your guaranty will insure reasonably fair elections. Knowing this, we will hold them ourselves, and I believe that your aid will not be necessary, but that your moral force and support will be sufficient.

Another reason that makes us want the Platt amendment is the desire to unify our Atlantic coast with the interior, which having been under the autonomy of England, there exists some differences of race, language, and customs from the rest of the country. This union can be carried out by the medium of a railroad from the coast to the capital, and besides developing the richest part of the country, it would at once stop all talk of separation, which is started once in a while by the people of that region. This can only be done by medium of a loan, and this can only be obtained should permanent peace be assured.

In conclusion, I desire to state that owing to the political position I hold, I am in condition to assure you that this treaty meets with the general sympathy of the whole country, and in pledging myself to work for it not only do I follow the instructions of my Government, but also the suggestions of a great number of my fellow countrymen.

The CHAIRMAN (to the interpreter). Ask the minister if there is anything he wishes to add to this statement verbally.

Gen. CHAMORRO. Nothing whatever. I place myself at your orders for any inquiries that you wish to make.

The CHAIRMAN. Are there any Senators present who desire to ask any questions?

Senator HITCHCOCK. I have a few questions that I desire to ask, Mr. Chairman. What was the financial condition of your country before Zelaya became President?

Gen. CHAMORRO. I refer you to Mr. Cuadra, the financial minister.

Senator HITCHCOCK. Then I want to know whether the new currency system is now in operation?

Gen. CHAMORRO. The monetary system now is equal to the American dollar.

Senator HITCHCOCK. Is it in operation?

Gen. CHAMORRO. Yes, sir; so much so that the money of Nicaragua is equal to American money; you only have to pay a premium of a half a cent in order to get a draft on New York.

Senator HITCHCOCK. Are business conditions good?

Gen. CHAMORRO. Business conditions are bad because the Government owes to all merchants and has not been able to pay, consequently they have no further credits. The credit in foreign countries is lost to the merchants.

Senator HITCHCOCK. What was the value in gold of the railroad, part of which was sold to the New York bankers?

Gen. CHAMORRO. Fifty-one per cent.

Senator HITCHCOCK. My question is what was the value of the whole railroad?

Gen. CHAMORRO. The railroad, when the bankers first took hold of it, was worth \$2,000,000, but under their management it improved in value and it was calculated at \$2,500,000; that is, when they took the option. Even at that price the bankers were willing to release the option providing they were paid promptly, but the Government was not in condition to do so, and the consequence was that the bankers exercised the option.

Senator HITCHCOCK. How was the railroad built; how did the country raise the money to build the road?

Mr. LIVINGSTON (the interpreter). The Government, with its own funds, started the road. I know that personally, and afterwards, finding itself in a hole, they got a loan from England of £280,000.

Senator HITCHCOCK. Before they got the loan of £280,000, how much did they put in?

Gen. CHAMORRO. \$1,000,000.

Senator HITCHCOCK. \$1,000,000 had been put in before that time?

Gen. CHAMORRO. Yes, sir.

Senator HITCHCOCK. How did they get that money—\$1,000,000.

Gen. CHAMORRO. The surplus of the revenues.

Senator HITCHCOCK. Did they borrow any money after that for the road?

Gen. CHAMORRO. No, sir; that is all they borrowed.

Senator HITCHCOCK. So the total cost of the road was only \$2,400,000?

Gen. CHAMORRO. As to that I do not know. The financial minister will know better about that than I do.

Senator HITCHCOCK. I will wait until he gets on the stand. Did Nicaragua have the constitutional power to sell the road?

Gen. CHAMORRO. Yes, sir; she had. Nicaragua has not sold the railroad outright. She has formed a company for running the road.

Senator HITCHCOCK. Nicaragua sold 51 per cent of the road?

Gen. CHAMORRO. Which was part of the company; they formed a company.

Senator HITCHCOCK. Was there any question as to whether they had the power to do that?

Gen. CHAMORRO. No; none whatever.

Senator HITCHCOCK. Did Nicaragua sell it willingly, or only because it had made a loan that it could not repay?

Gen. CHAMORRO. The government sold the railroad, because they felt that being in the hands of people with means it would so improve the road that it would increase in value.

Senator HITCHCOCK. In your statement which was read, you stated that they lost the 51 per cent because they could not pay the bankers the loan.

Gen. CHAMORRO. Yes, sir. The reason I make that statement is that, under the management of Brown Bros., the bankers, the road improved so materially that they felt they should get more than \$1,000,000 for 51 per cent. I felt that if they got \$2,500,000 Brown Bros. would pay that difference.

Senator HITCHCOCK. It was not a contract of purchase; it was a loan which they foreclosed, was it?

Gen. CHAMORRO. It was a contract of purchase.

Senator HITCHCOCK. How many people voted for president at the last election?

Gen. CHAMORRO. I do not know, because I left the country before that election took place.

Senator HITCHCOCK. How many voters are there in the country?

Gen. CHAMORRO. As that was the first election, I have no idea how many there were.

Senator HITCHCOCK. How were the Presidents elected before Zelaya's time?

Gen. CHAMORRO. By popular vote.

Senator HITCHCOCK. What was the vote then?

Gen. CHAMORRO. From 35,000 to 45,000 votes.

Senator HITCHCOCK. But you do not know how many people voted for Diaz?

Gen. CHAMORRO. No, sir; I do not.

Senator HITCHCOCK. Could you tell what per cent voted for Diaz?

Gen. CHAMORRO. I have no idea, but I think about 14,000. If necessary I can ask the Government to send me information.

Senator SMITH of Michigan. Let me ask a question right at this point, because it may direct his attention to the matter. In the city of Leon, which has a population of about 64,000—the largest city there—I understand there were but 200 votes cast in that election.

Gen. CHAMORRO. Oh, no; the votes there were 3,000 for Diaz, and that is the city that has always been against—

Senator SMITH of Michigan. At Leon you say the vote was 3,000?

Gen. CHAMORRO. Yes, sir.

Senator HITCHCOCK. Has Nicaragua a standing army?

Gen. CHAMORRO. Yes, sir.

Senator HITCHCOCK. How large is it?

Gen. CHAMORRO. Now, in peace, 1,000.

Senator HITCHCOCK. Is there any disorder anywhere in the country?

Gen. CHAMORRO. No, sir; there is none at present.

Senator SUTHERLAND. I wish you would find out before you leave the election matter what are the qualifications of the voters.

Senator HITCHCOCK. Who votes in Nicaragua?

Gen. CHAMORRO. The qualifications there consist of this: That anybody can vote who is 18 years of age and married, provided they can read and write, and those who are single men if of the age of 21 years who can read and write. They are making a census there, but so far it is not complete, and therefore I can not tell definitely how many people there are who vote.

Senator HITCHCOCK. What is the population of Nicaragua?

Gen. CHAMORRO. Six hundred thousand people.

Senator SHIVELEY. Is that voting qualification a constitutional qualification?

Gen. CHAMORRO. Oh, yes, sir.

Senator HITCHCOCK. Have you a copy of the constitution with you?

Gen. CHAMORRO. Yes, sir; I have one.

Senator HITCHCOCK. Will you supply it to the chairman?

Gen. CHAMORRO. Yes, sir.

Senator HITCHCOCK. I think that should go in the record, Mr. Chairman.

The CHAIRMAN. Do you mean the entire constitution?

Senator HITCHCOCK. Yes; I think it ought to go in, if it is short.

The CHAIRMAN. How long is it?

Gen. CHAMORRO. It is thin.

Senator SMITH of Michigan. In that connection could you give us the former constitution? This is the new constitution to which you refer, is it?

Gen. CHAMORRO. The new one.

Senator SMITH of Michigan. I would like to see the one that preceded the Diaz presidency.

Gen. CHAMORRO. There was not a constitution in vogue at the time of Zelaya. It did not exist.

Senator SMITH of Michigan. Well, there is a previous constitution to the one now in existence. It is contained in our library. I have seen it myself.

Gen. CHAMORRO. I will try to get it, if there is one.

Senator SMITH of Michigan. It is available, and it ought to go into the record.

The CHAIRMAN. Is this copy of the constitution which the minister has in English?

Mr. LIVINGSTON (the interpreter). No, sir; it is in Spanish.

Senator SMITH of Michigan. It is easily obtainable.

The CHAIRMAN. We will have that translated.

Senator SMITH of Michigan. We can get it at the Pan American Building. I have seen it.

The CHAIRMAN. Already translated?

Senator SMITH of Michigan. Yes.

[The two constitutions referred to appear in the appendix to this record.]

The CHAIRMAN. Let me ask you this: By whom was the constitution made? Was it ever submitted to the voters, or was it enacted by the Congress?

Gen. CHAMORRO. The constitution is made in this way: There is an election called by the people to select members of the assembly to make the constitution, and once made it is approved because the people elected all the members for that purpose.

The CHAIRMAN. Approved by whom?

Gen. CHAMORRO. By the members themselves. They are elected especially for that purpose, making the constitution, by the people.

The CHAIRMAN. Is it a constitutional convention?

Gen. CHAMORRO. Yes, sir; it is a special convention held for that purpose. Also the members of the courts. The judges of the courts are also called in to give an opinion during the meeting of the assembly, in accordance with the law. Of course they have no right to vote but they are simply called in while the convention is held.

Senator SHIVELY. And that constitution, after adoption by the convention, is not submitted to the people?

Gen. CHAMORRO. No, sir. The only thing they do is that it is approved by the assembly and passed over to the President and he signs it, and it is published, and that is the constitution.

Senator SMITH of Michigan. I would like to ask a few questions. Where were you when the Mena revolution broke out?

Gen. CHAMORRO. I was in Managua.

Senator SMITH of Michigan. Did you take part in that revolution?

Gen. CHAMORRO. As I understand it, you ask me if I took part in the Mena revolution? No, sir.

Senator SMITH of Michigan. You started a counterrevolution of your own, did you not?

Gen. CHAMORRO. No, sir. I was made general in chief by the Government.

Senator SMITH of Michigan. By what government—Estrada?

Gen. CHAMORRO. Diaz.

Senator SMITH of Michigan. You had a revolution, did you not, at the time our troops were first landed there? Were you not engaged as revolutionary leader?

Gen. CHAMORRO. I was not a revolutionist at the time of the landing of the marines. I had taken charge of revolutions previous to that time.

Senator SMITH of Michigan. When? Against Zelaya?

Gen. CHAMORRO. I took part in the revolution of 1897 against Zelaya. Then I was not in charge. Then I took part in 1903.

Senator SHIVELY. Do you mean in 1897?

Senator HITCHCOCK. First in 1897 and then in 1903.

Gen. CHAMORRO. Those were against Zelaya. I also took charge of the revolution of 1909, which finally resulted in the overthrow of Zelaya.

Senator SMITH of Michigan. In 1909, did you say?

Gen. CHAMORRO. In 1909; yes, sir.

Senator SMITH of Michigan. You took part in that revolution?

Gen. CHAMORRO. Yes, sir; as general in chief.

Senator SMITH of Michigan. Was that the Mena revolution?

Gen. CHAMORRO. In 1909; yes, sir.

Senator SMITH of Michigan. That was in 1911.

Gen. CHAMORRO. In 1911, was the Mena revolution.

Senator SMITH of Michigan. Were you not engaged in war at the time Diaz went to the presidency as vice president, or designado, or whatever they call it?

Gen. CHAMORRO. No, sir.

Senator SMITH of Michigan. Did you belong to the Diaz party?

Gen. CHAMORRO. I belonged to the Conservative Party.

Senator SMITH of Michigan. Have you made claim against the Government of Nicaragua for revolutionary expenses?

Gen. CHAMORRO. I have made no claim, and have no claim against them, nor hold any bonds against the Government.

Senator SMITH of Michigan. So you have no claim against this fund if anything is paid?

Gen. CHAMORRO. No, sir.

Senator SMITH of Michigan. Were you in the conference which determined who should be president, the one that was attended by Mr. Weitzel?

Gen. CHAMORRO. Yes, sir.

Senator SMITH of Michigan. Who were members of that conference?

Gen. CHAMORRO. Messrs. Diaz, Solorzano, and Cuadra, who represented Gen. Estrada.

Senator SMITH of Michigan. Who else were there?

Gen. CHAMORRO. And myself.

Senator SMITH of Michigan. Mr. Weitzel was our minister, was he?

Gen. CHAMORRO. Yes, sir.

Senator SMITH of Michigan. Did he take part in that conference?

Gen. CHAMORRO. Yes, sir; he was present at the conference to see what they were going to do. He was acting as secretary.

Senator SMITH of Michigan. Who was?

Gen. CHAMORRO. Mr. Weitzel, as secretary.

Senator SMITH of Michigan. The conference decided upon a candidate for President, did it not—I mean, in the first place, before Diaz was decided upon, the council decided?

Gen. CHAMORRO. Yes, sir.

Senator SMITH of Michigan. Who did they decide on?

Gen. CHAMORRO. At the first balloting it was two votes for Manuel Lacayo, cast by Solorzano and myself. Then there were two votes cast for Salvador Calderon by Carlos Cuadra Pasos and Diaz, and afterwards, at the second conference that took place in three or four days later, those votes were all in favor of Mr. Diaz.

Senator SMITH of Michigan. Had the American minister expressed a preference for Mr. Diaz?

Gen. CHAMORRO. None whatever.

Senator SMITH of Michigan. And that conference decided upon the selection of Diaz?

Gen. CHAMORRO. Yes, sir. There was a convention called to resolve who were going to be Conservative candidates, and after several days they resolved on Mr. Diaz.

Senator SMITH of Michigan. There was no other candidate, was there, in the field at that election?

Gen. CHAMORRO. No, sir.

Senator SMITH of Michigan. The American minister's part in it was to act as secretary of the conference?

Gen. CHAMORRO. The reason they called Mr. Weitzel was this, that Mr. Dawson took part in the conference there between the four chiefs, and Mr. Dawson said that his Government had an interest in the affairs of Nicaragua, so when Mr. Weitzel came there we asked him to act as secretary during the conference, not that he came of his own volition; he was asked.

Senator SMITH of Michigan. He was asked into that conference?

Gen. CHAMORRO. Yes, sir.

Senator SMITH of Michigan. And took part in it?

Gen. CHAMORRO. Took part; yes, sir.

Senator SMITH of Michigan. You say there was only one candidate presented at that election and that was the Conservative candidate, Diaz?

Gen. CHAMORRO. Yes, sir.

Senator SMITH of Michigan. Did Mr. Weitzel express any preference for Diaz?

Gen. CHAMORRO. No, sir.

Senator SMITH of Michigan. Who did he express a preference for?

Gen. CHAMORRO. Nobody.

Senator SMITH of Michigan. He simply sat in that gathering, and the vote stood 2 and 2—Diaz receiving no votes, and you adjourned for a couple of days when Mr. Diaz was selected?

Gen. CHAMORRO. Yes, sir.

Senator SMITH of Michigan. When was that—what date?

Gen. CHAMORRO. I do not know the date. It was in the month of November, 1912.

The CHAIRMAN. At the time these conferences were held, attended by Weitzel, Diaz was acting president?

Gen. CHAMORRO. Yes, sir.

Senator SMITH of Michigan. By designation. Estrada had gone away, had he not?

Gen. CHAMORRO. Yes, sir.

Senator SMITH of Michigan. And Diaz was, by designation, acting president?

Gen. CHAMORRO. Yes, sir.

Senator SMITH of Michigan. When were our marines called there?

Gen. CHAMORRO. The first time the American marines disembarked was in Bluefields.

Senator SMITH of Michigan. What year and what month?

Gen. CHAMORRO. I do not remember the month.

Senator SMITH of Michigan. What year?

Gen. CHAMORRO. In 1910. They landed simply with the object of preventing fighting at Bluefields.

Senator SMITH of Michigan. Were they there at the time of these conferences to determine who should be a candidate for President?

Gen. CHAMORRO. The second time that the marines landed was in 1912.

Senator SMITH of Michigan. And you do not remember the month? Was it not October?

Gen. CHAMORRO. It was in August, 1912.

Senator SMITH of Michigan. Where were they stationed?

Gen. CHAMORRO. In Leon, in Corinto, Managua, and Granada.

Senator SMITH of Michigan. How many were there?

Gen. CHAMORRO. Something like 500. You probably know better about that than I do.

Senator SMITH of Michigan. Do not guess at it if you do not know. Mr. LIVINGSTON (the interpreter). He thinks so.

Senator SMITH of Michigan. Did they occupy the palace at Managua?

Gen. CHAMORRO. No, sir.

Senator SMITH of Michigan. What did they occupy?

Gen. CHAMORRO. The Campo Marte.

Senator SMITH of Michigan. That is the President's house?

Gen. CHAMORRO. Campo Marte. The house that the marines occupied was formerly the house of Zelaya, called Campo Marte. The present President occupies a house called No. 1.

Senator SMITH of Michigan. But this was what was regarded as the President's home, was it not?

Gen. CHAMORRO. No, sir.

Senator SMITH of Michigan. Did the American flag fly over this Campo Marte?

Gen. CHAMORRO. Yes, sir.

Senator SMITH of Michigan. Is it still there, do you know?

Gen. CHAMORRO. Yes, sir.

Senator HITCHCOCK. Is it a Government building?

Gen. CHAMORRO. Yes, sir.

Senator SMITH of Michigan. Do you know about the Masaya massacre?

Gen. CHAMORRO. Do you refer to the battle that took place at Masaya?

Senator SMITH of Michigan. Yes, sir.

Gen. CHAMORRO. Yes, sir.

Senator SMITH of Michigan. Were our soldiers there then?

Gen. CHAMORRO. In that battle at Masaya I was general. The American troops were in the hill only to prevent the interruption of the railroad. The Nicaraguan troops only took part in the battle. There were 300 killed and 300 wounded.

Senator SMITH of Michigan. Did that include the people who were killed in church there?

Gen. CHAMORRO. Yes, sir.

Senator SMITH of Michigan. How many were killed in the church?

Gen. CHAMORRO. About seven.

Senator SMITH of Michigan. In the church?

Gen. CHAMORRO. Yes, sir. Probably you made a mistake. The people occupying the church were not going to church. They were simply troops.

Senator SMITH of Michigan. I know; they had gathered in the church. Let me clear up this point. Our troops took no part in that battle?

Gen. CHAMORRO. No, sir.

Senator SMITH of Michigan. They occupied the hill?

Gen. CHAMORRO. Yes, sir.

Senator SMITH of Michigan. And they were there solely to watch over this railroad, were they not?

Gen. CHAMORRO. In order to occupy the hill they had to fight.

Senator SMITH of Michigan. Gen. Cuadra says yes. I do not understand it.

Gen. CHAMORRO. The American troops fought there in Masaya.

Senator POMERENE. Fought whom?

Gen. CHAMORRO. They fought the natives.

Senator POMERENE. There were two parties; there were the Government and the revolutionists there. Did they fight the revolutionists or the Government?

Gen. CHAMORRO. They fought against the revolutionary party.

Senator POMERENE. The American troops fought against the revolutionary party?

Gen. CHAMORRO. Yes, sir.

Senator SMITH of Michigan. Why did you say they were there to protect this railroad? Is that generally understood, that that was their function?

Gen. CHAMORRO. Yes, sir. The Government of Nicaragua asked the United States Government to protect the railroad, being foreign property.

Senator SMITH of Michigan. And that was their business there?

Gen. CHAMORRO. Yes, sir.

Senator SMITH of Michigan. You say that our soldiers had an engagement there with the revolutionists. Who headed the revolutionists?

Gen. CHAMORRO. In that battle the Americans fought against Gen. Zeledon of the revolutionary party.

Senator SMITH of Michigan. Was Gen. Chamorro there?

Mr. LIVINGSTON (the interpreter). No, sir; he was in Managua at the time.

Senator SMITH of Michigan. I want to turn away from this subject a minute and ask you whether in your capacity as Nicaraguan Minister you have asked the Government of the United States to retain our marines and soldiers in Nicaragua?

Gen. CHAMORRO. I have neither asked to keep them or to send them away.

Senator SMITH of Michigan. You have made no request that they should be retained there?

Gen. CHAMORRO. No, sir.

Senator SMITH of Michigan. How long have you been here?

Gen. CHAMORRO. A year.

Senator SMITH of Michigan. One year?

Gen. CHAMORRO. Yes, sir.

Senator SMITH of Michigan. And you were accredited here shortly after the election of President Diaz?

Gen. CHAMORRO. Yes, sir.

Senator SMITH of Michigan. In urging the ratification of this treaty, do you consider the rights of Costa Rica involved in this sale of the Nicaraguan strip?

Gen. CHAMORRO. Costa Rica has nothing to do with it, because it is the option of selling or giving—

Senator SMITH of Michigan. I understand, but they own part of the river, do they not?

Gen. CHAMORRO. No, sir.

Senator SMITH of Michigan. Do they not claim to own part of that river?

Gen. CHAMORRO. No, sir.

Senator SMITH of Michigan. Let me ask you another question. When the former treaty was presented by the former administration it was submitted to the Nicaraguan Congress, was it not?

Gen. CHAMORRO. Yes, sir.

Senator SMITH of Michigan. And they rejected it, did they not?

Gen. CHAMORRO. No, sir.

Senator SMITH of Michigan. Did they not reject it?

Gen. CHAMORRO. No, sir; it was approved—

Senator SMITH of Michigan. One moment. They first rejected it and they reconvened and ratified it?

Gen. CHAMORRO. No, sir.

Senator SMITH of Michigan. Did not the President dissolve that Congress because it refused to ratify that treaty?

Gen. CHAMORRO. No, sir.

Senator SMITH of Michigan. And then convened them together in the next couple of days?

Gen. CHAMORRO. No, sir; that is not true. The only Congress that was dissolved was in the time of Estrada.

Senator SMITH of Michigan. It was submitted then?

Gen. CHAMORRO. No, sir.

Senator SMITH of Michigan. The treaty was submitted then, was it not?

Gen. CHAMORRO. No, sir; the Congress was called to ratify the constitution.

Senator SMITH of Michigan. And the people refused that?

Gen. CHAMORRO. No, sir; the treaty is favored by a majority of the Nicaraguan people.

The CHAIRMAN. What did he say?

Mr. LIVINGSTON (the interpreter). He says the treaty of the canal is favored by a majority of the Nicaraguan people. He says that besides being a diplomat he is also a politician in his own country and is in receipt of many letters from his own country approving the idea of the canal convention.

Senator POMERENE. Has this pending treaty been made public in Nicaragua?

Gen. CHAMORRO. No, sir.

Senator POMERENE. Do the people generally know down there that it is proposed to attach to this treaty the Platt amendment?

Gen. CHAMORRO. Yes, sir; all the newspapers publish the idea that they were going to add the Platt amendment to it.

Senator POMERENE. Do the Liberals as well as the Conservatives favor the Platt amendment?

Gen. CHAMORRO. The peaceable people are in favor of it—those not dreaming of the revolutions all the time.

Senator POMERENE. What portion of the people then are dreaming of revolutions all the time?

Gen. CHAMORRO. Those who are cut are those who wish to come in in order to help themselves on the Zelaya system.

Senator POMERENE. This Platt amendment, of course, to a certain extent is conferring upon the United States some powers of sovereignty. Now, if this were adopted and became a part of the treaty, would not that be made an issue among the Nicaraguan people?

Gen. CHAMORRO. The Nicaraguan people as a rule are sensible, especially those who are able to act, and they know that the United

States Government is not in favor of increasing its territory; and also they have before them the Cuban situation in which that country is prosperous under the operation of the Platt amendment and they consider the sovereignty of Cuba being in no way affected by the Platt amendment, and they think the same rule would apply in Nicaragua.

Senator POMERENE. It is quite clear from our standpoint, as I understand it, that we do not want any of your territory down there, but the question in my mind is as to how this proposition might affect the Nicaraguans themselves.

Gen. CHAMORRO. The idea is to have peace, and they think the only way they can obtain that peace is simply by the Platt amendment, by giving authority to the United States Government to supervise in case of necessity or need.

Senator POMERENE. Has the amount which it is proposed to give to the Nicaraguan people for these concessions by the United States been made public?

Gen. CHAMORRO. Yes, sir; it is known.

Senator POMERENE. Is any objection made as to the amount?

Gen. CHAMORRO. No, sir; none whatever.

Senator POMERENE. These rights under this treaty are perpetual. Do the Nicaraguan people generally appreciate that fact?

Gen. CHAMORRO. The Nicaraguan people see that there is only one nation that could build a canal for Nicaragua, and that is the United States of America, and therefore, if it is for a limited time or for eternity, it is the same thing to them.

Senator POMERENE. If this treaty were to be ratified by both Governments, would not the people who were out and who were opposed to Diaz make the fact of the ratification of this treaty, and particularly of the Platt amendment, an issue locally in Nicaragua?

Gen. CHAMORRO. No, sir; I think there would be none. My private opinion is that the liberal party will in the end be glad that the Platt amendment has been put in there because that is the only way they could get in power again.

Senator POMERENE. Is there opposition down there now to the American marines staying there?

Gen. CHAMORRO. There is some, but not generally.

Senator POMERENE. If the American marines were withdrawn, would there likely be another revolution?

Gen. CHAMORRO. No, sir. I look at it in this way: That if the treaty was passed, then there would be no revolution—if the marines were retired. Now, in case they were retired, there might be a revolution, but it would not be successful.

Senator POMERENE. Do you think that President Diaz, with his army of 1,000, would be able to preserve peace?

Gen. CHAMORRO. The army, in times of peace, is composed of 1,000 men, and in case of necessity they could muster between 9,000 and 10,000 men, and my party is more apt at war because they have been fighting for years.

Senator POMERENE. As a citizen of Nicaragua, and as the minister from that country, would you advise the withdrawal of the American marines now?

Gen. CHAMORRO. As far as I am personally concerned, it is a matter of indifference to me. I do not think it would do any harm if

they were retired, but, at the same time, there possibly might be some disturbances.

Senator POMERENE. I want to ask another question, and if you have any delicacy about answering it I will not insist upon it. Do you know, or do you care to state, what the position of President Diaz is with respect to the withdrawal of these troops? You do not need to answer that question if it embarrasses you in any way.

Gen. CHAMORRO. I think President Diaz's idea is that they should not be retired.

Senator POMERENE. Is any European country, or the representative of any European country, seeking now to obtain these canal rights?

Gen. CHAMORRO. Of course this is confidential; but the chargé d'affaires of Germany has made an offer for the canal rights and options, and he proposes better terms than the United States Government can give them.

Senator POMERENE. Is that on behalf of the German Government?

Gen. CHAMORRO. It is on behalf of the German Government. The German minister in Guatemala is in charge of the affair.

Senator POMERENE. Do you know, or care to state, what that offer is?

Gen. CHAMORRO. The chargé d'affaires of Germany told President Diaz that the Government of Nicaragua was sacrificing their interests in giving concessions to the United States in the present terms. They do not specify any terms as to what Germany would give, but he said better terms and conditions than they could get from the United States.

Senator POMERENE. I understood the minister to say a moment ago that he did not feel that any Government except the United States could afford to build that canal.

Gen. CHAMORRO. That is my opinion, but that does not prevent other people from having different opinions.

Senator POMERENE. I think that is all I care to inquire about.

Mr. LIVINGSTON (the interpreter). Gen. Chamorro wishes to state that the German Government is bringing great pressure to bear on the Nicaraguan Government on account of the claims of German citizens, and he thinks that refers somewhat to that proposition of theirs.

Senator SMITH of Michigan. What are those claims?

Gen. CHAMORRO (through the interpreter). One of the claims of a German citizen, Mr. Weist, is \$176,000.

Senator SMITH of Michigan. He is the man who had the railroad?

Gen. CHAMORRO. Yes, sir; and there are other claims of German merchants in Nicaragua who have advanced merchandise and goods to the Government of Nicaragua.

Senator SMITH of Michigan. The Government officials?

Gen. CHAMORRO. To the Government.

Senator SMITH of Michigan. \$176,000 does not represent the Weist claim. That was for the cancellation of the railroad lease.

Gen. CHAMORRO. Altogether there are three hundred and seventy and some odd thousands of dollars due the German people.

Senator SMITH of Michigan. The railroad was prosperous under Mr. Weist, was it not?

Gen. CHAMORRO. When the railroad was delivered over by Mr. Weist you could not travel. It is what you say here, a right of way and a streak of rust.

Senator SMITH of Michigan. But the reports do not bear that out. However, that is neither here nor there.

Gen. CHAMORRO. Mr. Weist can have his own privilege to say so.

Senator SMITH of Michigan. They claim it was a very prosperous property.

The CHAIRMAN. Let me ask if Mr. Cuadra is not better prepared to answer questions respecting the finances of Nicaragua?

Gen. CHAMORRO. Yes, sir.

Senator POMERENE. Have you any personal knowledge as to the depth of the water in this Fonseca Bay along the Nicaraguan coast?

Gen. CHAMORRO. Not personally.

Senator POMERENE. Is it navigable?

Gen. CHAMORRO. Yes, sir; it is navigable.

Senator POMERENE. Now, another question. What portion of the Nicaraguan people would you say are at the present time supporters of President Díaz and his régime?

Gen. CHAMORRO. More than half.

Senator HITCHCOCK. How much does the Presidency cost a year?

Gen. CHAMORRO. The President earns \$12,000 a year as salary and \$12,000 a year for representation, as they call it.

Senator SHIVELY. Is that last \$12,000 for the expenses of keeping up the presidential mansion?

Gen. CHAMORRO. Yes, sir.

The CHAIRMAN. It is now 12 o'clock, and it would be useless to put Mr. Cuadra on the stand at this time. If there is no objection the committee will meet on Thursday morning next at 10 o'clock, and would be glad if Mr. Cuadra would be here at that time.

(Accordingly, at 12 o'clock m., the committee adjourned until Thursday, June 25, 1914, at 10 o'clock a. m.)

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HEARING

BEFORE THE

COMMITTEE ON FOREIGN RELATIONS UNITED STATES SENATE

SIXTY-THIRD CONGRESS

SECOND SESSION

ON

CONVENTION BETWEEN THE UNITED STATES AND NICARAGUA

PART 4

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CONVENTION BETWEEN THE UNITED STATES AND NICARAGUA.

THURSDAY, JUNE 25, 1914.

COMMITTEE ON FOREIGN RELATIONS,
UNITED STATES SENATE,
Washington, D. C.

The committee met at 10 o'clock a. m. pursuant to adjournment.

Present: Senators Stone (chairman), Hitchcock, Williams, Pomereene, Saulsbury, Smith of Michigan, Root, and McCumber. Also Hon. William Jennings Bryan, Secretary of State; Pedro Rafael Cuadra, financial agent of Nicaragua; and Jose L. Livingston, of the Nicaraguan legation.

STATEMENT OF PEDRO RAFAEL CUADRA, FINANCIAL AGENT OF NICARAGUA.

The CHAIRMAN. Please state your name and official title.

Mr. CUADRA. My name is Pedro Rafael Cuadra; I am financial agent of Nicaragua.

Senator SMITH of Michigan. Are you minister of finance?

Mr. CUADRA. No, sir; I was formerly minister of finance.

Senator SMITH of Michigan. But you are not now?

Mr. CUADRA. I am not now; no, sir.

The CHAIRMAN. You say you are not minister of finance?

Mr. CUADRA. After having accepted the place of financial agent, I had to resign as minister of finance.

The CHAIRMAN. What are the duties in general of the financial agent?

Mr. CUADRA. To obtain loans and take charge of all matters pertaining to the financial interests of Nicaragua and to look after the international part of the business.

The CHAIRMAN. Is there any statement that you desire to make to the committee?

Mr. CUADRA. I desire to make a short statement before being questioned, if you will allow me. I will give the reasons why I am here, etc.

The CHAIRMAN. You may proceed.

Mr. CUADRA. After the Walker war, for 30 years there was complete peace and self-government, so much so that the rest of Central America called us the Switzerland of Central America. This was up to 1893, when Zelaya entered into power. In 1893 the revolutionary party came in power and remained in control in their own way until 1910. There was a marked feeling in favor of the American people

there on account of Americans who remained after Walker left, and also the association with travelers at the time of Transit, and because of the greater part of young people of Nicaragua being educated in the United States. The Government of the United States offered or volunteered its services to help us, and we accepted with pleasure, believing that was the opinion of all—the people of the United States as well as the administration. We followed strictly the advice of the Government of the United States in regard to establishing a gold-money system and getting a loan from bankers, and everything that was necessary. In fact, we simply acted, taking it for granted that the United States Government was taking a paternal interest in us. Up to that time the paper money in the country only was in circulation, and they carried it to such an excess that the condition of the country was fatal. The people got so accustomed to paper money that it was the hardest work in the world to accept the new system recommended by Mr. Conant and Mr. Harrison. In the first place it was rejected by the assembly, but after a great deal of trouble it was finally accepted.

Senator SMITH of Michigan. Will you please give the date when it was accepted?

Mr. CUADRA. In 1912. Then came the troubles; what they called the “dollar diplomacy” here failed, on account of the change of administration, and there was trouble with the bankers, and they could not do anything. The customhouse was in the hands of the bankers, and we were without rents or anything. Being in that condition I came here, as financial agent, to see what I could do to raise money to settle the affairs. I was minister of finance a year and a half.

Senator SMITH of Michigan. When did you take office?

Mr. CUADRA. I think it was the 26th of October, 1911.

The CHAIRMAN. When did you resign?

Mr. CUADRA. When I was named financial agent. As the constitution does not allow any individual to hold two positions, when I came here to sign contracts my position as minister of finance ended.

Senator SMITH of Michigan. Give the date when it ended.

Mr. CUADRA. When I came here my Government had already established the gold system, and the bankers had the customhouse, and we found ourselves in a bad condition, and thinking the equality of the American policy was universal we thought this Government would do again what the Government had done before, and I saw Mr. Bryan, and Mr. Bryan tried to help me. I went to the bankers, and they told me that if the United States Government guaranteed peace and stability of government they would try to help us, and when they had confidence in the United States they helped us temporarily.

Senator SMITH of Michigan. Please indicate when you left the office of minister of finance. You took it on October 26. When did you leave it?

Mr. CUADRA. The very fact that I was named financial agent—my commission as minister of finance ended.

Senator SMITH of Michigan. What was the date?

Mr. CUADRA. In October last I signed a contract for a loan; I suppose then my position as minister of finance had ended.

Senator SMITH of Michigan. In October, 1913?

Mr. CUADRA. Yes, sir.

The CHAIRMAN. Who succeeded you as minister?

Mr. CUADRA. A brother of mine—Eulogio Cuadra. Then I named Mr. Douglas as the lawyer, because I knew him, being considered a good lawyer and a professor in the Georgetown University of Law, where a nephew of mine was studying law.

I wish now to make a statement in connection with what has been said of Mr. Douglas. There is no contingent fund coming from me, and therefore I wish to deny positively what the press says, that he was to receive a contingent sum of \$50,000. That I deny.

Senator HITCHCOCK. Is there anyone else in the United States who was employed by Nicaragua or by anyone else to assist in securing this treaty?

Mr. CUADRA. No one whatever. I have not interested anybody in the question of the treaty. We simply left it to the justice and fair quality of the United States in the matter.

Senator WILLIAMS. Mr. Chairman, has Mr. Cuadra filed as yet a specific itemized account of Nicaragua's debts, to whom they are due, and where held at present, and for what purpose the debts were contracted? Has that been done as yet? If not, I would like to ask Mr. Cuadra to furnish it.

Senator SMITH of Michigan. He filed a general statement, which is in volume No. 1 of this hearing—

Senator WILLIAMS. I understand that, but I would like to know with whom those debts were contracted—with what banking firms—who holds them, where they are now due, and to whom. They may have passed into other hands. I would like to have a tabulated statement of the whole matter.

The CHAIRMAN. Had you not better let Mr. Cuadra finish his statement in order that it may be made in a connected manner?

Senator WILLIAMS. Very well.

Mr. CUADRA. Being in that state of mind, under conditions of a treaty of peace, I spoke to Mr. Bryan and Mr. Bryan helped me. Mr. Bryan spoke to Senator Bacon. He is the one who suggested the idea of introducing the Platt amendment. Mr. Bryan introduced me to Senator Bacon and Senator Bacon is the one who proposed the idea of adding the Platt amendment to the treaty. Then I proposed to my Government and it accepted the idea with pleasure. The whole Government believed it was the best thing to do—to have the Platt amendment attached to the canal convention. There is a mistaken idea on the part of the people of the United States, who believe that the Platt amendment is required to keep the present Government in power, because in Nicaragua, as well as other Central American countries, they can remain in power for years, the same as Porfirio Diaz in Mexico, Zelaya, Castro, and all of them. It was for the good of the country that we simply want the Platt amendment added to it. We look upon the American marines as not a thing to sustain the Government, but simply as a matter of economy, because we do not require to keep the troops in hand.

Secretary BRYAN. Mr. Chairman, with regard to the reference made to Senator Bacon I might explain, so that the record will show it, that the treaty that was presented during the former administration contained clauses that gave this country certain rights down there to interfere, and Senator Bacon had approved that treaty.

When it was brought up again under this administration he explained his objections to it and finally said that he would be willing to go as far as the Platt amendment, and I took the matter up with the President, and he thought that would be a good substitute for what the other treaty contained. So the idea of putting the substance of the Platt amendment in came as a suggestion from Senator Bacon, who had objected to the form of the original treaty.

Senator ROOT. That suggestion was made at a meeting of the committee here.

Secretary BRYAN. Yes. I mentioned that while Senator Bacon was alive.

Mr. CUADRA. In view of the services lent by Mr. Bryan, the bankers offered to help us on gradually until the canal convention was signed, when they did make the advances, and last year we signed a contract for a loan of money—\$1,000,000—with Brown Bros. at 6 per cent interest—one year's credit—and the same was delivered in total without discount. One of the Government ways—of Mr. Zelaya—in the previous administration was in order to make the people happy, to give them the free use of the railroad, not only for persons, but also for merchandise.

Mr. LIVINGSTONE (the interpreter). I know that myself as a fact.

Mr. CUADRA. When I came to be minister of finance I made up my mind to put a stop to that free riding and proposed to Brown Bros. to see if they could not enter into some combination of management with the Government, which they did, and Brown Bros. advanced money and established the monetary system.

Senator HITCHCOCK. Will you please give us the history of the railroad?

Mr. CUADRA. It began in 1876.

Senator HITCHCOCK. What did it cost?

Mr. CUADRA. The first few miles cost \$10,000.

Senator SMITH of Michigan. A mile?

Mr. CUADRA. Yes, sir; and afterwards the contractors raised it to \$20,000 a mile, as the value was then increasing.

Senator HITCHCOCK. How much was the total cost?

Mr. CUADRA. When we came to give Brown Bros. an option, there was a man by the name of Mr. Passmore, an Englishman, who had valued it at \$2,017,000.

Senator HITCHCOCK. I ask you what it cost. The country built it. What did it cost?

Mr. CUADRA. Of course I have no fixed data for it, but I think \$2,000,000 was the total cost of the road.

Senator HITCHCOCK. Where did the country get the money to build the road?

Mr. CUADRA. The road was begun and was built with the surplus of the Government moneys, because at that time the Government was worked on an economical basis; and then, when it came to the end and they found themselves short of money, they raised a loan of £280,000.

Senator HITCHCOCK. How much had been put in before the £280,000 had been borrowed?

Mr. CUADRA. I am not certain; but with the loan of £280,000—which is \$1,400,000—there was paid to Norris \$400,000. Therefore

the \$1,000,000 was taken to pay the other expenses that the Government had; but whether it was applied to the original amount, I do not know.

Senator HITCHCOCK. Is there not any statement which shows the cost of that railroad?

Mr. CUADRA. There may be, but I do not know. I can ask my Government and see if it could furnish a statement.

Senator HITCHCOCK. When was it finished?

Mr. CUADRA. In 1886.

Senator HITCHCOCK. How many years did it pay a profit?

Mr. CUADRA. It always produced a profit, because only expense for operating was taken from the receipts. Do you understand?

Senator HITCHCOCK. No.

Mr. LIVINGSTONE. If they received \$10 and spent \$11, the treasury supplied the difference.

Senator HITCHCOCK. I want to know whether the total earnings of the road were greater than the total expenses of the road?

Mr. CUADRA. Yes; and for that reason, as I have explained, there were always receipts greater than the expenses, because the expenses were not mentioned.

Senator HITCHCOCK. How long did this German have the road leased?

Mr. CUADRA. I do not remember that, because I was not in Nicaragua at that time.

Senator HITCHCOCK. What did he pay a year for the lease?

Mr. CUADRA. I do not know myself. The whole thing was a mystery there with Zelaya and the rest of them, and nobody could make head or tail of the whole business.

Senator HITCHCOCK. That is the trouble. I think we ought to have something definite. I would like a statement of the earnings of that road, and what it cost.

Senator SMITH of Michigan. I think that Weist's last report will show it, and I think we can get that report. It shows his operation of it and the amount of business, gross and net—what it was doing—and he bases his claim, which he has filed with the Department of State—I believe, first, for \$1,000,000, was it not?—upon a breach of contract.

Secretary BRYAN. I do not know about that.

Senator SMITH of Michigan. I think it was finally adjusted for about \$360,000. So that represented a loss by reason of the cancellation of his contract.

Senator HITCHCOCK. Will you state whether this £280,000 is included in the Ethelburga Syndicate debt?

Mr. CUADRA. Yes, sir; it is included in the Ethelburga debt.

Senator HITCHCOCK. When was the Ethelburga debt consolidated?

Mr. CUADRA. In 1909.

Senator HITCHCOCK. What did the bonds sell for before they were consolidated?

Mr. CUADRA. They went down to even 60, because they were not able to pay the interest or the principal.

Senator HITCHCOCK. So that this Ethelburga debt, which stands at \$6,000,000 now, was on the market at \$3,600,000?

Mr. CUADRA. No; that was before the consolidation of the loan.

Senator HITCHCOCK. But that is what I mean; that before the Ethelburga bonds were consolidated into one syndicate they were only worth \$3,600,000, whereas now Nicaragua has got to pay \$6,000,000?

Mr. CUADRA. This £280,000 was consolidated to Ethelburga at 86.

Senator HITCHCOCK. When was that?

Mr. CUADRA. In 1909.

Senator HITCHCOCK. When was that?

Mr. CUADRA. 1909.

Senator HITCHCOCK. No; but I mean before that time.

Mr. CUADRA. They really were not worth anything, apparently, because they were not able to pay principal or interest, but when the Ethelburga Co. came in and made a contract with the Government they were taken in by the Ethelburga people at 86.

Senator HITCHCOCK. Before that they had been on the market at 55 to 60?

Mr. CUADRA. Yes.

Senator HITCHCOCK. Ethelburga did not lend the money to Nicaragua; they simply bought these bonds, the people that held them; or were they united in a syndicate? What is the Ethelburga Co.?

Mr. CUADRA. You will find that in the bondholders' book, which I gave you a copy of the other day. That is beyond me, and I do not know about it.

Senator HITCHCOCK. But the consolidation was on a basis of 86 cents?

Mr. CUADRA. Yes, sir; on 86 cents.

Senator HITCHCOCK. Ask him if he can secure from his Government a statement from Nicaragua as to the cost of the road and where the money came from and what its earnings were for the first 20 years.

Mr. CUADRA. I think I can obtain that.

Senator SMITH of Michigan. I should like to ask you a question. You were minister of finance from October 26, 1911, until October, 1913. What was the volume of the Nicaraguan currency at the beginning of the year 1911? I will give you the figures, and see if I am not correct, to save you from speculating on it. There were \$26,627,103.95. Is that correct?

Mr. CUADRA. Yes.

Senator SMITH of Michigan. Between the 28th of April and the 24th of October the volume of the Nicaraguan currency was increased \$23,424,000, making a total of \$47,000,000?

Mr. CUADRA. Yes.

Senator SMITH of Michigan. Out of that increase, which seems to have been arbitrarily made, there were certain sums paid to your family, and to Chamorro, and to President Diaz—is he saying that I am right?

Mr. LIVINGSTONE (the interpreter). No, sir; he is saying it is a calumny.

Senator SMITH of Michigan. Let me go at it in a little different way. In the index bureau of our State Department, index file 41700-120, there is a report from Consul Gunther, at Managua, dated January 11, 1912, No. 169, in which Gunther reports to the Secretary of State that Adolpho Diaz was paid out of the treasury of Nicaragua 750,000 pesos; Gen. Mena—

Senator WILLIAMS. You had better let him understand you as you go along.

Senator SMITH of Michigan. Do you understand me?

Mr. CUADRA. I understand you.

Senator SMITH of Michigan. Gen. Mena, 1,023,210 pesos—

Senator McCUMBER. Was that dollars or pesos?

Senator SMITH of Michigan. Pesos. They mark it in Nicaragua "dollars."

The family of Mr. Chamorro, the present minister, was paid 6,138,834 pesos. N. R. Allen, on August 21, 1911, of the Leonas Gold Mine Co., was paid 480,000 pesos or \$40,000 in gold. The "Bellanges Incorporated," on August 21, 1911, was paid 480,000 pesos. This is an American company at Bluefields, and the president is a friend of Diaz. So that I should like to have it appear that on November 2, 12 days after you became minister of finance, Emilino Chamorro was paid 10,000 pesos, Salvadore Chamorro 42,000 pesos, Salvadore Chamorro 18,000 pesos, Salvadore Chamorro 18,000 additional pesos, Pedro Chamorro 40,250 pesos, Salvadore Chamorro 139,307 pesos? On July 19 of the same year Pedro Chamorro was paid 480,000 pesos, July 19 Salvadore Chamorro was paid 240,000 pesos, Julia de Chamorro was paid 180,000 pesos, Carlotta Chamorro—is she any relation of yours?

Mr. CUADRA. No; I have not paid any such sums. It is a calumny.

Senator SMITH of Michigan. Carlotta Chamorro was paid 10,000 pesos, Resenda Chamorro 78,000 pesos, Resenda Chamorro 10,000 pesos, Salvadore Chamorro and others in the aggregate 2,400,000 pesos. That the total payments contained in this report of Consul Gunther aggregated \$21,206,257.71.

Secretary BRYAN. What did a peso amount to at that time?

Mr. LIVINGSTONE (the interpreter). 20 to 1.

Senator SMITH of Michigan. $12\frac{1}{2}$ to 1 was the exchange at that time.

Mr. CUADRA. No, sir; 20 to 1.

Senator McCUMBER. What is a peso compared with our money?

Senator ROOR. Practically half a dollar.

Secretary BRYAN. These you said were at $12\frac{1}{2}$.

Senator SMITH of Michigan. These at that time were $12\frac{1}{2}$ to 1. That was the rate of exchange.

Secretary BRYAN. $12\frac{1}{2}$ pesos to make a dollar.

Senator SMITH of Michigan. That was the rate of exchange at that time.

On February 29, 1912, the Assistant Secretary of State wrote to Minister Weitzel, the American minister at Managua, concerning these payments out of the Nicaragua treasury, dwelling particularly—I quote—upon the payments made to the relatives of Mena, Chamorro, and Mena himself, and denounced it as an incredible sum, and in open and flagrant violation of the agreement between Nicaragua and the United States, in that they were not submitted to the Mixed Claims Commission at all. The Assistant Secretary of State denounced it as a flagrant injustice and bad faith, and an open breach and violation of article 1 of the Mixed Claims decree. I should like to ask you whether you know anything about that. What do you know about it?

Tell us what he says, Mr. Livingstone, if you can. Do not let him make a statement and give us your version of it.

Mr. LIVINGSTONE (the interpreter). He says those were claims that arose from ill treatment and robbery and the taking of properties from the Chamorros.

Senator SMITH of Michigan. Are you related to the Chamorro family?

Mr. CUADRA. I am married to one of them.

Senator SMITH of Michigan. Which one?

Mr. LIVINGSTONE (the interpreter). The daughter of Pedro Joaquin Chamorro, who was President of Nicaragua. He is dead years ago.

Senator SMITH of Michigan. They intermarried, the Cuadra and Chamorro families?

Mr. CUADRA. The only thing is that I was married to Miss Chamorro.

Senator SMITH of Michigan. I do not think he has answered very much about what I said. He does not antagonize my statement, which is a matter of official record in the Department of State.

Mr. CUADRA. I made none of those payments myself.

Senator SMITH of Michigan. I am not saying that you made them. I am asking if that is a correct statement.

Mr. CUADRA. I was not there at the time those payments were made, if made—not in Nicaragua.

Senator SMITH of Michigan. He acquiesces, does he—

Mr. LIVINGSTONE (the interpreter). No, sir.

Senator SMITH of Michigan. Wait a moment. You are not the man I am looking for information from. If you will tell me what he says and tell him what I say, I will be obliged to you.

Mr. LIVINGSTONE (the interpreter). But you cut me off, Senator.

Senator SMITH of Michigan. The volume of the currency, then, being \$26,000,000 and odd when Cuadra entered—

Mr. CUADRA. No, sir.

Senator SMITH of Michigan. Just before you entered—

Mr. LIVINGSTONE (the interpreter). No, sir; he says when he entered there had already been in circulation \$47,000,000.

Senator SMITH of Michigan. But there is no denial, I guess, of the facts, and I am going to offer this statement over the signature of Estrada, and have it read into the record, an open letter to the minister of finance by ex-President Estrada, dated Bluefields, May 16, 1914, addressed to Don Eulogio Cuadra, minister of finance, Managua, signed by Estrada, and printed in this Bluefields American of that date. I want that copied verbatim into the record in connection with the statement I have made.

None of these claims that I have enumerated were submitted to the Mixed Claims Commission?

Mr. CUADRA. A great many of those claims that you speak of were for moneys advanced by these people to help on the revolution, borrowed from people on their individual credit to carry on the revolution.

Senator SMITH of Michigan. Adolpho Diaz was a poor man, was he not—

Mr. CUADRA. I beg your pardon. Adolpho Diaz did not receive one cent that belonged to him. It belonged to the people that he borrowed it from.

Senator SMITH of Michigan. He received 750,000 pesos?

Mr. CUADRA. Yes, sir; to repay personal loans made to him to help the revolution.

Senator SMITH of Michigan. The revolutionists had possession of the customhouses at Bluefields and other points?

Mr. CUADRA. Only in Bluefields and Cape Gracias.

Senator SMITH of Michigan. They were drawing large sums from the customshouses, were they not?

Mr. CUADRA. They could not, because business was then paralyzed because of the revolution.

Senator SMITH of Michigan. These items that I have read do not include advances made by the Government to the Secretary of War for military expenses. They are in addition to this.

Mr. CUADRA. What the minister of war did was to pay for previous expenses, not taking it out of that money.

Senator SMITH of Michigan. But this money was to go to these various people in their private capacity, and was not passed upon by the Mixed Claims Commission as provided in article 1 of the decree creating that commission. What do you say in answer to that last question?

Mr. CUADRA. Those arrangements were made before the commission was signed, and—

Senator SMITH of Michigan. No. The State Department called the district attention of the Government to that. The witness is mistaken about that.

The CHAIRMAN. Let him make an answer.

Mr. LIVINGSTONE (the interpreter). He says that they afterwards convinced the State Department they were wrong.

Senator SMITH of Michigan. The State Department demanded, did they not, that this money should be returned to the Treasury?

Mr. CUADRA. I have no knowledge of it.

Senator SMITH of Michigan. I should like to ask that the chairman—

Senator WILLIAMS. Let him answer. He is trying to answer something.

Senator SMITH of Michigan. I do not know whether he is or not.

The CHAIRMAN. This gentleman was invited here, and we must treat him with courtesy.

Senator WILLIAMS. I will ask the stenographer to read what was said.

(The stenographer accordingly read as follows:)

Mr. CUADRA. Those arrangements were made before the commission was signed and—

Senator SMITH of Michigan. No. The State Department called the distinct attention of the Government to that. The witness is mistaken about that.

The CHAIRMAN. Let him make an answer.

Mr. LIVINGSTONE (the interpreter). He says that they afterwards convinced the State Department they were wrong.

Senator SMITH of Michigan. The State Department demanded, did they not, that this money should be returned to the Treasury?

Mr. CUADRA. I have no knowledge of it.

Senator SMITH of Michigan. I should like to ask that the chairman—

Senator WILLIAMS. Let him answer. He is trying to answer something.

Senator WILLIAMS. Then he went on and stated a lot to the interpreter which has not been communicated to the stenographer. I want that.

Mr. LIVINGSTONE (the interpreter). He says that if that is true, what is reported there, it is absurd to suppose that he nor the other people of the present government would have dared to present themselves before the American people and ask them to help them, in good faith.

Senator SMITH of Michigan. I should like to ask that the file from the State Department, No. 41700-120, be furnished to the committee for its use. That is the full index file, and contains letters and a report from the American chargé at that time and consul, Mr. Gunther, to the Secretary of State.

Secretary BRYAN. Put that in the form of a letter.

Senator SMITH of Michigan. I want it to appear here that I have asked for it. It shows this entire matter in detail, as well as the reply of the Secretary of State to our minister at Managua regarding it.

The CHAIRMAN. Who is the author of the document?

Senator WILLIAMS. You mean that shows Gunther's report?

Senator SMITH of Michigan. Our consul.

The CHAIRMAN. Gunther?

Senator SMITH of Michigan. Yes; at Managua.

Secretary BRYAN. Mr. Cuadra stated that he afterwards convinced the State Department they were wrong. Would it be worth while to look into the further correspondence and see whether that matter was discussed?

Senator SMITH of Michigan. Oh, yes; it ought to be looked into. We only want the facts.

Senator McCUMBER. Before this conversation goes on longer I wish you would ask the interpreter if he can not interpret the exact language and not in the third person all the time, and I think we will all understand him better. Instead of saying that he says so-and-so, give us his language.

Senator HITCHCOCK. And make shorter interpretations.

Senator McCUMBER. And speak the language of the witness and not your own.

Mr. LIVINGSTONE (the interpreter.) It is almost impossible to do that.

Senator WILLIAMS. In regard to that statement of the witness where he says that they convinced the State Department that this report of Gunther was a mistake, that ought to come here with these papers.

Senator SMITH of Michigan. Oh, I agree with you on that. All of this new money, which was put out by the Government of Nicaragua just before you became minister of finance, 23,000,000 pesos, had been covered into the obligations of Nicaragua, funded by Brown Bros. in their financial plan, had it not?

Mr. CUADRA. There was a total of \$47,000,000 paper money—pesos. At that time they were worth 20 to 1, and then, when the money they got from Brown Bros. \$1,500,000, they commenced to buy bills and burned them until they finally got them 12½ to 1.

Senator SMITH of Michigan. But the whole volume of the Nicaragua currency was included in this arrangement with Brown Bros.?

Mr. CUADRA. Yes, sir.

The CHAIRMAN. May I ask a question? How many pesos of the 47,000,000 are now outstanding?

Mr. CUADRA. There remains \$2,000,000 in cordobas. They are backed by \$600,000 on deposit in New York City.

Senator HITCHCOCK. Where are they on deposit in New York City?

Mr. CUADRA. At the beginning in the United States Mortgage & Trust Co., and now with the Bankers.

Senator HITCHCOCK. Do they draw interest?

Mr. CUADRA. Two per cent.

Senator SMITH of Michigan. Who is Sr. Pedro Rafael Cuadra?

Mr. LIVINGSTONE (the interpreter). You have him in front of you.

Senator SMITH of Michigan. This gentleman?

Mr. LIVINGSTONE (the interpreter). Yes, sir.

Senator SMITH of Michigan. Were you minister hacienda?

Mr. CUADRA. Yes.

Senator SMITH of Michigan. When?

Mr. CUADRA. October 26, until I was made financial agent.

Senator SMITH of Michigan. Is it not a fact that while you were minister hacienda you refused to pay these orders that were issued by Gen. Mena?

Mr. CUADRA. They were never presented to me.

Senator SMITH of Michigan. I think that is all I care to ask.

Senator WILLIAMS. Senator Smith, I have a suggestion to make, if it meets with your approval. There has been a great deal of confusion in the manner in which the questions have been interrupted while being interpreted, and the answers being interrupted while being interpreted—in one way and another. Suppose you draw those questions up in writing and suppose they be submitted to him and let him answer them.

Senator SMITH of Michigan. Oh, that is not necessary, Senator. I have asked the questions direct, and I think he has understood them. He has answered them frankly.

Senator WILLIAMS. Two or three times when he has made some answers the interpreter has not interpreted it to the committee.

Senator ROOT. Might it not suit the purpose after this testimony is written out, if this gentleman takes it, and if he sees occasion for any further answer or explanation, let him make it in writing.

Senator WILLIAMS. All right.

Senator SMITH of Michigan. Of course, every courtesy should be shown, and I am perfectly willing to do it, but I do not exactly fancy the matter being submitted to a council of state. I have asked the questions frankly. I do not want anything but the facts.

Senator WILLIAMS. That is all I want.

Senator SMITH of Michigan. I think we got them.

Senator WILLIAMS. Three or four times he has made statements to the interpreter that were not communicated to the stenographer. In other words, the answers have not been put down.

Senator SMITH of Michigan. If the stenographer does not get it he ought to say so.

The CHAIRMAN. There can not be any objection to Mr. Cuadra looking over his testimony.

Senator SMITH of Michigan. That rests with the chairman.

Senator POMERENE. In the taking of any testimony the witness wants to look over his testimony.

Senator ROOT. And that is peculiarly so when you have the difficulty of interpretation.

Secretary BRYAN. And Senator Smith may want to amplify his questions also.

Senator SMITH of Michigan. No; I have asked my questions carefully.

The CHAIRMAN. I will ask you now if you have prepared the detailed statement asked of you some days ago showing the indebtedness of Nicaragua, the date when it was contracted, when each item was contracted, to whom it is due, the interest it bears, when it matures, and for what purpose the debt was made?

Senator WILLIAMS. And with whom it was originally contracted.

Mr. CUADRA. It would be impossible to give it here, because I have not got the books.

The CHAIRMAN. Can you prepare it in a few days and let the committee have it?

Secretary BRYAN. Could he make inquiry by cable?

Mr. LIVINGSTONE (the interpreter). Yes.

The CHAIRMAN. Would he have to communicate with his home Government?

Mr. CUADRA. Yes; I have not the books here, sir.

The CHAIRMAN. That would take some time. Could that statement be prepared?

Mr. CUADRA. It could be done, sir; but it would be a question of months. First, I should have to write there, and then they would have to put the bookkeepers at work there.

Senator SMITH of Michigan. I think we will get that, Senator, from another source—from the bankers—before we get through.

The CHAIRMAN. It may be.

Senator SMITH of Michigan. I wish, in connection with this statement which has been made—this Estrada statement—that we might have the Dawson pacts providing for the mixed-claims commission, etc., printed.

The CHAIRMAN. What is the statement, Senator Smith, that you have asked to have inserted?

Senator SMITH of Michigan. It is an official statement from the former President—

The CHAIRMAN. I think the committee ought to know what it is.

Senator SMITH of Michigan. I beg your pardon. I thought you did know. It is an official statement prepared by the former President of Nicaragua and addressed to the present minister of finance, under date of May 16, 1914. They publish those statements officially in papers there, and that constitutes what they call their Official Bulletin.

Secretary BRYAN. This is a former President?

Senator SMITH of Michigan. Yes; Estrada, the predecessor of Diaz. Diaz was Vice President when Estrada was President.

The CHAIRMAN. Does this gentleman—Sr. Estrada—hold any position now?

Mr. CUADRA. None.

The CHAIRMAN. Have you ever seen this statement?

Mr. CUADRA. Yes. I say it is all a mistake.

Secretary BRYAN. You would not call it official if it was not from a man who was in office, would you?

Senator SMITH of Michigan. I call anything official that purports to give the fiscal condition while the person making it was in power.

Mr. LIVINGSTONE (the interpreter). He says that those bank bills that you speak of were ordered by Estrada for circulation, but were not received until after he was no longer President; therefore it is charged to Diaz.

Senator SMITH of Michigan. That does not matter. Cuadra says he found them there.

Mr. LIVINGSTONE (the interpreter). He says that 15,000,000 arrived when Diaz became President, and then the balance came afterwards of the 23,000,000.

Senator SMITH of Michigan. The totals are correct.

Mr. CUADRA. You will find that in Mr. Conant's book.

The CHAIRMAN. Let me ask this: Do I understand you to say that this statement exhibited by Senator Smith of Michigan is incorrect?

Mr. CUADRA. It is exact—proper, correct.

The CHAIRMAN. It is correct?

Mr. CUADRA. The only difference is this: They were ordered by Estrada, but they did not arrive until Estrada left.

Senator SMITH of Michigan. That does not change the fact any.

The CHAIRMAN. I suppose there will be no objection to having it go into the record. If not, it will be inserted at this point.

(The statement referred to is as follows:)

OPEN LETTER TO THE MINISTER OF FINANCE, BY EX-PRESIDENT JUAN J. ESTRADA.

BLUEFIELDS, May 16, 1914.

DON EULOGIO CUADRA,

Minister of Finance, Managua.

DEAR SIR: In the memorial of the department of finance and public credit, which you presented to the legislative chamber, under date of January 20 of the current year, the following statements are found:

Statement of the movement of bills in the national treasury from the year 1905 to December 31, 1913.

Circulation from the 31st of December, 1905, to the 31st of December, 1913, according to the books of the general treasury-----	\$7, 801, 905. 85
Issued by the government of Zelaya from January, 1906, to December, 1908-----	4, 599, 950. 00
	\$12, 401, 855. 85
Incinerated by the government of Zelaya during the same period -----	252, 752. 90
Circulation at the termination of the government of Zelaya -----	12, 149, 103. 95
Issued by the government of Madriz, according to accounts of the general treasury-----	14, 915, 000. 00
	27, 064, 103. 95
Incinerations by Madriz, according to statements-----	437, 000. 00
Amount on hand on the going out of that government----	26, 627, 103. 95
Issued by the government of Estrada from September, 1910, to January, 1911, according to accounts-----	5, 635, 000. 00
Issued by the government of Estrada from the 28th of April to the 24th of October, 1911, as per accounts-----	23, 420, 000. 00

In the foregoing statement I observe a great error, at least in what refers to the sums issued during my administration, since as chief of the executive branch I only authorized the emission of 15,000,000 pesos; and it should be observed that in the month of October, which is the date given for the last emissions, I was not even in the country, having left the capital on the 9th

of May, 1911, when the first shipments of the bills that had been ordered began to arrive.

As an act of justice I request you to cause to have published the dispositions or decrease under which were issued the 29,055,000 pesos, which you have permitted yourself to charge to my administration, with the end of having light thrown on the manner in which that amount of bills were placed in circulation.

If you will take the trouble of acceding to my wishes, or to make some explanation, I will be much gratified.

Your obedient servant,

JUAN J. ESTRADA.

Senator ROOT. May I ask a question?

The CHAIRMAN. Yes.

Senator ROOT. In the Statesmen's Yearbook for 1914 I find a statement that the total debt of Nicaragua, December 31, 1913, was \$1,191,560. The internal debt amounted to 10,000,000 pesos in March, 1914. Do you know from what source that information was obtained?

Mr. CUADRA. I do not know where the information comes from.

Senator ROOT. Can you give the items of indebtedness making up these amounts stated here?

Mr. CUADRA. I think, in general, I can do so. That is to say, in general, not in specific terms.

Senator ROOT. Oh, of course. It is composed, I suppose, of different classes of debts, and you can give those. Will you be good enough to do so, at your convenience?

Mr. CUADRA. Yes.

Secretary BRYAN. Senator Root, you speak of 10,000,000 pesos as an internal debt. At what prices do you count the pesos there?

Senator ROOT. I do not know. I understand there has been some recent refunding, which gives a larger value to the Nicaraguan peso than the ordinary peso.

Secretary BRYAN. It speaks of pesos. What is a peso worth there?

Mr. LIVINGSTONE (the interpreter). He says that 12½ of that paper money is worth one dollar cordoba, which is American gold.

Senator ROOT. This 10,000,000 of pesos of internal debt you would understand to be in paper?

Mr. CUADRA. Yes.

Senator ROOT. And that would be at the rate——

Mr. CUADRA. \$800,000.

Senator ROOT. Twelve and one-half pesos paper to one peso gold?

Mr. CUADRA. Yes.

Senator ROOT. The indebtedness stated here in pounds, I suppose, is a gold debt?

Mr. CUADRA. Yes, sir.

Senator HITCHCOCK. That is the Ethelburga debt.

Mr. LIVINGSTONE (the interpreter). What is the exact sum?

Senator ROOT. £1,195,560.

Mr. LIVINGSTONE (the interpreter). That is the Ethelburga debt.

Senator HITCHCOCK. It is all in one syndicate now.

Senator ROOT. All consolidated in one syndicate. Are there no debts of Nicaragua outside of these stated here?

Mr. CUADRA. Brown Bros., \$1,060,000 pending——

Senator ROOT. That is, outside of this £1,195,560?

Mr. CUADRA. Yes.

Senator HITCHCOCK. Mr. Cuadra, in this statement you made to the committee you figured up a total indebtedness of \$13,061,539?

Mr. CUADRA. Yes.

Senator HITCHCOCK. One of the items in that was \$1,645,072, which you say is to creditors in gold—cash loaned to the Government in different years?

Mr. CUADRA. Yes, sir.

Senator HITCHCOCK. Who were those creditors?

Mr. CUADRA. That list is in the State Department, sir. I have not got it with me.

Senator HITCHCOCK. Can we have that, Mr. Secretary?

Secretary BRYAN. I beg your pardon?

Senator HITCHCOCK. That list of the gold creditors of Nicaragua. Let me explain that. Here are the items given by Mr. Cuadra: First, the Ethelburgo debt, \$6,000,000; second, Brown Bros. and Seligman & Co., due October 8, 1914, \$1,060,000; third, correspondent, for orders executed in several years, \$378,080; fourth, Emery claim, \$500,000; and fifth, creditors in gold, cash loaned to the Government in different years, \$1,645,072. What I wanted to know was whether we could have a list of those creditors?

Secretary BRYAN. You can if we have it. I do not know whether we have that list. Have we, Mr. Livingstone?

Mr. LIVINGSTONE (the interpreter). He says that they wrote him from Nicaragua that they had sent the detailed copy to the State Department. He supposes it is there.

Senator HITCHCOCK. Do you know anything about it yourself?

Mr. LIVINGSTONE (the interpreter). The only thing he knows is that they wrote him to that effect, sir.

Senator HITCHCOCK. Was any of that money borrowed during your administration?

Mr. CUADRA. No; it was in previous administrations.

Senator HITCHCOCK. Do you know whether it was American creditors or European creditors?

Mr. CUADRA. They are mostly Germans, Italians, and English.

Senator HITCHCOCK. Can you tell me about when that money was borrowed?

Mr. CUADRA. That money was mostly borrowed when they had the idea that the canal treaty was going to be passed and that they were going to get \$15,000,000 loan, guaranteed by this Government.

Senator HITCHCOCK. I understood him to say it was borrowed by earlier administrations.

Mr. LIVINGSTONE (the interpreter). The greater part, he says.

Senator HITCHCOCK. What was it borrowed for?

Mr. CUADRA. To maintain the Government. The country was ruined then on account of Zelaya's administration and the revolution.

Senator HITCHCOCK. About what years?

Mr. CUADRA. 1911 and 1912.

Senator HITCHCOCK. So it is a very recent date?

Mr. CUADRA. Yes.

Senator HITCHCOCK. Has Nicaragua been paying interest on it?

Mr. CUADRA. In some instances; yes, sir. When in great necessity by creditors they pay them.

Senator HITCHCOCK. What is the rate of interest?

Mr. CUADRA. Eighteen per cent—1½ per cent a month.

Senator HITCHCOCK. Are any of the European countries pressing you for those debts?

Mr. CUADRA. Germany and Italy.

Senator HITCHCOCK. What is this other item—sixth, "Other accounts," \$3,478,387?

Mr. CUADRA. That is included—those claims are supposed to be pending for damages to estates and property of individuals, which have been recognized by the Government, which have not been paid. They simply got notes for them.

Senator HITCHCOCK. Before the mixed commission now?

Mr. CUADRA. In the war with Mena the Government recognized a great many of those claims for losses and damages to property, and provisions, and all that.

Senator HITCHCOCK. So that they are accounts which are due to the people of Nicaragua?

Mr. CUADRA. Yes.

Senator HITCHCOCK. Are they all before the Mixed Claims Commission.

Mr. CUADRA. Some.

Senator HITCHCOCK. In answer to Senator Smith you said that the Government had paid some of those claims out of the treasury?

Mr. CUADRA. Part of them were paid and part of them were simply given due bills, which are still pending, like the Chamorros, which Senator Smith spoke about.

Senator HITCHCOCK. Is this item of \$3,478,387 an estimate, or is it all that the people claim?

Mr. CUADRA. That is exact.

Senator HITCHCOCK. That is what they claim?

Mr. CUADRA. Yes, sir; that is what they claim, exact, as due by the Government.

Senator HITCHCOCK. Who has found it to be due?

Mr. CUADRA. A great deal of it the mixed commission.

Senator HITCHCOCK. That makes a total of \$13,061,539 as the debt of Nicaragua?

Mr. CUADRA. Beside that it will be what the mixed commission will allow in the other claims pending, which are the largest claims of all now pending. I calculate it as \$15,000,000 debt.

Senator HITCHCOCK. Then this \$3,000,000 will be used in paying off those debts?

Mr. CUADRA. Yes.

Senator HITCHCOCK. Then the debt would be reduced to \$12,000,000?

Mr. CUADRA. Yes.

Senator HITCHCOCK. If Nicaragua had a debt of \$12,000,000 she would not be able to pay the interest on it, would she?

Mr. CUADRA. Yes; she can.

Senator HITCHCOCK. I call your attention to your own statement here. You say the total income of the Government is as follows:

Customhouse receipts, estimated.....	\$1, 800, 000
From liquors and tobacco tax.....	1, 500, 000
Income from telephone and telegraphs, railroads, railroad dividends, etc.....	500, 000
Total	3, 800, 000

Further, you say that "the running expenses of the Government might be safely estimated to be \$3,200,000," which would leave \$600,000 to pay interest. But \$600,000 will not pay interest on \$12,000,000 of debt.

Mr. CUADRA. The payment of that \$3,000,000 would be to increase the commerce, because it is to the merchants that that is owing, a good deal of it. The merchants are simply standing still there.

Senator HITCHCOCK. I am asking, if your estimate is right, whether \$600,000 will pay the interest on \$12,000,000?

Mr. CUADRA. Yes, sir.

Senator HITCHCOCK. You are paying 6 per cent for your money—

Secretary BRYAN. It is only 5 per cent on the long-time loan.

Mr. LIVINGSTONE (the interpreter). Ethelburga is only 5 per cent; that is one-half, he says.

Secretary BRYAN. The short-time loan costs 6 per cent.

Senator HITCHCOCK. Can you borrow the rest of this?

Mr. CUADRA. We can do so with the help of the United States.

Secretary BRYAN. He thinks this treaty will give such an assurance of stability down there that they can borrow the money at a lower rate of interest.

Senator WILLIAMS. \$600,000 is 5 per cent of \$12,000,000.

Senator HITCHCOCK. Yes; but they do not do that. Now, Mr. Cuadra, do you not think as a representative of your country, that if the United States helped your country get into good financial condition so as to make the payment of a debt and the interest certain, the owners of those bonds ought to scale down that debt in order to get that security?

Mr. CUADRA. That is our hope.

Senator HITCHCOCK. How much of a discount do you think they would give in order to get the security given by this treaty?

Mr. CUADRA. I think you can get that information better from Brown Bros.

Senator HITCHCOCK. The Ethelburga Syndicate only paid 86 per cent for the bonds?

Mr. CUADRA. The Ethelburga people paid 86 for the bonds they bought—the £230,000.

Senator HITCHCOCK. Did they pay 60 per cent for the others that they took into the syndicate?

Mr. CUADRA. I do not remember that, Senator.

Senator HITCHCOCK. Mr. Cuadra, if this treaty fails and Nicaragua is not able to get the \$3,000,000, and you lose that railroad and your bank by the foreclosure of this loan in October, will you be able to pay the Ethelburga Syndicate?

Mr. CUADRA. No.

Secretary BRYAN. They have a year to redeem in case of a default.

Senator HITCHCOCK. Oh, that is a hangman's privilege, almost.

Mr. LIVINGSTONE (the interpreter). He says they are paying now to foreigners and the Ethelburga Co., whatever they can, and if the treaty does not go through they will simply stop the payments to everybody.

Senator HITCHCOCK. Will not the representatives of the Ethelburga Syndicate therefore be interested in this treaty enough to make some concessions to get it through?

Mr. CUADRA. I think so; but I am not positive, sir.

Senator HITCHCOCK. Then should not your company make the arrangement with the Ethelburga people now as a condition of its going through?

Mr. CUADRA. I do not think it can be done, sir. On the contrary, they are very hard and will not allow us anything.

Senator ROOT. Who is very hard?

Mr. CUADRA. The Ethelburga people. The only ones that get paid in Nicaragua at present are the Ethelburga syndicate.

Senator HITCHCOCK. You will stop paying them if this treaty does not go through?

Mr. CUADRA. Yes, sir.

Senator WILLIAMS. Mr. Chairman, I should like to ask him a question. Ask him, Mr. Interpreter, why the Government does not sell the other 49 per cent on that railroad and cover the money into the treasury, and pay the creditors with it?

Mr. CUADRA. Because that is not popular with the people of Nicaragua.

Senator WILLIAMS. You have sold 51 per cent, so that you have lost control, so why not sell the other 49 per cent?

Mr. CUADRA. The people do not like it, although I would be in favor of it.

Senator WILLIAMS. Ask him how the people liked selling 51 per cent of it, which was the controlling interest?

Mr. CUADRA. They were opposed to it.

Senator WILLIAMS. They were opposed to it?

Mr. CUADRA. They were opposed to it; yes, sir.

Senator WILLIAMS. And they are opposed equally to selling the other 49 per cent?

Mr. CUADRA. Yes, sir.

Senator WILLIAMS. Ask him, please; what the other 49 per cent would be worth in the market; how much a share?

Mr. CUADRA. Due to the management of J. G. White & Co., who took charge of the railroad, the road has improved so much that we consider our 49 per cent worth \$1,500,000 to us.

Senator WILLIAMS. One more question. Suppose you succeed in paying off these people, and you get the railroad back to where the State controls it, will not this thing of free passengers and free freights start right up again, and the railroad again become non-profitable?

Mr. CUADRA. I think it would, yes, sir; especially if the Revolutionary Party came in power.

Senator HITCHCOCK. Senator, that will never come back, because the bankers own the 51 per cent outright, and have a mortgage on the other 49 per cent. It is only the 49 per cent they are trying to save. It will never come back to Nicaragua.

Senator WILLIAMS. Yes; but whenever the bankers are paid off they will not own the 51 per cent.

Senator SMITH of Michigan. Yes, they will.

Senator HITCHCOCK. They have got that. They bought that.

Senator WILLIAMS. Ah. What sort of a bank is this in which you have given 51 per cent to those people? Is it a state bank?

Mr. CUADRA. It is a commercial bank, Senator.

Senator WILLIAMS. Ask him if it is a Government bank.

Mr. CUADRA. Only 49 per cent stock the Government owns.

Senator WILLIAMS. Ask him what the 49 per cent in the bank would sell for. It is a commercial bank. What will it amount to per share?

Mr. CUADRA. The great portion of it cost the Government \$147,000, with \$300,000 capital, but what it is worth I have no idea.

The CHAIRMAN. I should like to ask him a question on another phase. How many United States Marines are in Nicaragua now?

Mr. CUADRA. About 100, I think, sir.

The CHAIRMAN. What is the greatest number ever there?

Mr. CUADRA. I think there were about 500 during the revolution.

The CHAIRMAN. Where were they?

Mr. CUADRA. When they first came to Nicaragua they went to Managua, alongside of the American legation. Afterwards came the question of the railroad danger. Then they set to work and spread all over the country, and they took barracks—

The CHAIRMAN. Except about 100, all have been withdrawn?

Mr. CUADRA. Yes.

The CHAIRMAN. Do you consider the presence of these soldiers necessary to the peace of Nicaragua?

Mr. LIVINGSTONE (the interpreter). He says that it is only an economic point of view that he looks at it, the presence of the Marines. He says the Government down there is well liked, but by having the American Marines there they do not require the expense of troops of their own. Therefore, they save that money.

The CHAIRMAN. Are these Marines being used in any way by the Government of Nicaragua in policing the place?

Mr. CUADRA. They simply occupy the barracks and do not have anything to do with the people of Nicaragua.

The CHAIRMAN. In what way, then, does their presence there relieve Nicaragua of maintaining a military establishment?

Mr. CUADRA. They guarantee that the Government of the United States will protect them to maintain order and liberty.

The CHAIRMAN. Is not the presence of these troops of the United States offensive to the people of Nicaragua?

Mr. CUADRA. No, sir.

Mr. LIVINGSTONE (the interpreter). He says that the troops behave elegantly, and nobody has any complaint against them. He says even the highest class of those opposed to the present Government look with favor upon the occupation of the troops there.

Senator WILLIAMS. I should like to ask the question, whether the Nicaraguan Government is paying any part of the support and maintenance of those Marines?

Mr. CUADRA. Not a cent; no sir.

The CHAIRMAN. Is there any additional statement you wish to make?

Mr. LIVINGSTONE (the interpreter). He says that he came here with the impression that as their elder brother they came to ask protection from you, but there seems to be a certain influence here in opposition to it. He says they do not come looking on you as judges, but only as their older brother to help them.

Senator HITCHCOCK. Mr. Cuadra, you said that the State Department had the items of this No. 5 in your statement, showing the creditors who had loaned money to the country?

Mr. CUADRA. Yes.

Senator HITCHCOCK. Has the State Department got the items in this No. 6 of your statement?

Mr. CUADRA. Yes, sir.

Senator HITCHCOCK. Giving "other accounts, total \$3,478,000"?

Mr. LIVINGSTONE (the interpreter). He says that he is simply saying so because that is the cable that he got that they were sent to the State Department—that they will be sent to the State Department here.

Senator HITCHCOCK. Mr. Secretary, will you have that furnished?

Secretary BRYAN. Yes.

The CHAIRMAN. Mr. Mallet-Prevost is to appear before the committee next Monday.

Senator WILLIAMS. Who is Mallet-Prevost?

Senator ROOR. Mr. Mallet-Prevost is a lawyer in New York, a very able man, who practices in international matters a great deal. As his name indicates, I think he is of French origin. I have no doubt his testimony would be very enlightening to the committee. I have no idea what side he is on, or what he will say, but he will know what he is talking about.

The CHAIRMAN. Mr. Conant and Mr. Wands will also appear before the committee.

Senator SMITH of Michigan. If Mr. Wands is coming I should like the Secretary of State to furnish the committee with the itemized statement of his expenditures in England, France, Germany, and Holland at the times of his last visit, and all money paid him through the State Department. I think that is easily obtainable, and if that could be furnished by the Secretary it would be very helpful. He was paid by the State Department.

Secretary BRYAN. He was an agent, I think you said, of the State Department?

Senator SMITH of Michigan. Yes; and an agent of the bankers at the same time.

Mr. LIVINGSTONE (the interpreter). He was paid by the Government of Nicaragua, sir.

Senator SMITH of Michigan. I know, but he was paid in the first instance by the department here.

Thereupon, at 12 o'clock m., the committee adjourned until Saturday, June 27, 1914, at 10 o'clock a. m.

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CONFIDENTIAL

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HEARING

BEFORE THE

**COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE**

SIXTY-THIRD CONGRESS

SECOND SESSION

ON

**CONVENTION BETWEEN THE UNITED STATES
AND NICARAGUA**

PART 5

Printed for the use of the Committee on Foreign Relations



WASHINGTON
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1914

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CONVENTION BETWEEN THE UNITED STATES AND NICARAGUA.

SATURDAY, JUNE 27, 1914.

COMMITTEE ON FOREIGN RELATIONS,
UNITED STATES SENATE,
Washington, D. C.

The committee met at 10.45 a. m., pursuant to adjournment.

Present: Senators Stone (chairman), Shively, Williams, Swanson, Pomerene, Saulsbury, and Smith of Michigan; the honorable Secretary of State.

The CHAIRMAN. The committee will come to order. Mr. Conant is to speak to the committee this morning.

TESTIMONY OF MR. CHARLES A. CONANT, FINANCIAL SPECIALIST, 32 LIBERTY STREET, NEW YORK.

(Mr. Charles A. Conant, having been duly sworn by the chairman, testified as follows:)

The CHAIRMAN. Please state your name, residence, and business.

Mr. CONANT. Charles A. Conant, New York City. My business is that of a sort of financial specialist. My business address is 32 Liberty Street, and my home address is 123 East Fifty-third Street.

The CHAIRMAN. Some time ago we were informed you had some connection, official perhaps, with the Government of Nicaragua in reorganizing the financial affairs. The committee would be glad to have you give them a clear and concise statement of your connection with the affairs of Nicaragua, and so stated as to give us an understanding of the situation there when you began your work, and what you have known of it since.

Mr. CONANT. In the summer of 1911 I was approached by Messrs. Brown Bros. with reference to visiting Nicaragua to study the currency system there, or lack of currency system, and to prepare a plan for a new monetary system. In time it developed that under the treasury bills loan which they had negotiated with the Republic of Nicaragua the bankers were authorized by the Republic to employ competent experts to go there and perfect this currency plan, the proceeds of the loan being largely for carrying it out. An English gentleman—Mr. F. C. Harrison—was also asked to go on the same mission to cooperate with me. He was a man of very high distinction in the Indian service, having been in British India 25 years, I think as head, for a time, of the paper currency department, and also in the fiscal department. I do not know just the official name of that, but it was with the department having to do with the administration

of the finances of British India. He had been in some one of those departments for 25 years, but had recently reached the age of retirement, which is early in that service, and was able to give his time in visiting Nicaragua. The two of us, with a couple of assistants, clerks, and so on, left New York about the middle of November, 1911.

The CHAIRMAN. You and he worked together?

Mr. CONANT. Yes; we worked together. The report, which I presume you have seen, is signed by us jointly.

We reached Nicaragua a day or two before Christmas, 1911, and remained until late in February or March. Mr. Harrison, I think, left on the 28th of February, and I left on the 28th of March, having spent, as you see, several months there, and having given all of our time to the consideration either of the currency or the fiscal problem. We felt from the beginning that while we were employed simply to regulate the currency we should take some measures to see that order was introduced into the fiscal system, because a country which is in continuous deficit or can not meet its current liabilities is not in a very good position to establish a strong monetary system. Therefore we were compelled to take up the fiscal situation simply from that point of view.

Do you wish me to describe the monetary system *per se*, or do you prefer to take up more particularly the collateral questions relating to the fiscal situation?

The CHAIRMAN. I think you might proceed in that way; state the case as you prefer. We want to understand what you did there with reference to the currency and with reference to the general fiscal affairs of the country.

Mr. CONANT. I will give a very brief résumé of the currency system, but, of course, in many details it is highly technical, and inasmuch as we have a full report here, which can be put into the record, I do not think it is necessary to go into that so fully, unless some Senator desires.

Speaking generally, the currency was in a very demoralized condition. As far back as 1893 the old Government under President Zelaya had begun the issue of paper money, strictly Government paper, and fiat, I believe, so far as any redemption was concerned. It relied upon the limited amount and the demand for some circulating medium to retain its value. As originally issued, it was supposed to be at par with a silver peso worth approximately the same as the bullion in our silver dollar. It was never pretended or claimed that it was worth par with a gold dollar. So that this money at the time of the first issues was in the neighborhood of 50 cents to the dollar at our gold coinage ratio.

The peso may be said to have a parity of 50 cents American gold. That is, roughly speaking—I am not giving the fractions.

Senator SMITH of Michigan. In 1895?

Mr. CONANT. In 1893. As silver fell of course the paper would fall, and then in addition to that came the influence of excess issues, which caused the paper to fall much more rapidly than silver. The rate of exchange was a crucial test. The rate when silver was at 50 would have been practically 200; that is, a peso, it requiring two of the local pesos to purchase a dollar exchange on New York at par. Of course, I need not stop to speak of the premium for exchange, which might be 1 per cent or according to what the banker charged.

Roughly speaking, the exchange was 200 when the first issues were made, but exchange rapidly increased; that is, it took more of the paper pesos to buy exchange on New York, so that in 1901, for instance, the average rate for the year was 372. You see, that meant that it had depreciated almost 50 per cent; not quite. In 1903 the rate had gotten up to 720.

Senator SMITH of Michigan. I think if you could say the ratio, say $2\frac{1}{2}$ to 1 or $3\frac{3}{4}$ to 1, that would make it a little clearer.

Senator SWANSON. That would make a dollar there worth about 12 cents.

Mr. CONANT. Yes.

I am not going into much detail anyway until we get down to the period just before our visit. Ultimately the exchange had reached about 1,000, during the dictatorship of Zelaya. That meant that the peso was worth 10 cents. Later, owing to excess issues, exchange mounted to as high as 2,000 for a time. It was not long permanent at that figure, but when we arrived it was in the neighborhood of 1,700 or 1,800. Of course, at 2,000 the peso was worth exactly 5 cents American money, and you can calculate 1,700 or 1,800 to be worth a little more—6 cents or 6 cents and a fraction.

We found a very general desire, of course, to have that condition remedied, and it was proposed with the proceeds of the treasury bills loan, originally \$1,500,000, to establish an exchange fund in New York for the purpose of stabilizing the exchange at such rate as we might determine on. The excess issues made in 1910 and 1911 had carried the exchange up to this very high figure—1,700 or 1,800 and at intervals 2,000—and we discovered very soon that the outstanding issues were very much larger than we had been led to believe or even than they were when the treasury bills agreement was first signed.

Senator POMERENE. About what is the date of that treasury agreement?

Mr. CONANT. September, 1911; September or October.

The chief error, I think, in regard to the excess issues was not issues made after the signing of the agreement but after the date when the representatives of the banks had been down there the year before and had been told what the amount then outstanding was. The chief excess issues were between those two dates—between the date of the first tentative agreement and the actual signing of the agreement. While I believe there were small issues after the signing of the agreement they were of minor importance.

Senator SMITH of Michigan. Are you having reference to the \$25,000,000 of new money that was emitted?

Mr. CONANT. That would be included in the additional issues.

Senator SMITH of Michigan. That is included in your statement?

Mr. CONANT. Yes. We were led to believe at first that the total outstanding issues were in the neighborhood of 32,000,000 pesos, and we found they were 48,000,000. But of the 32,000,000 some had been issued under the new government. The problem we had to deal with, therefore, was much more serious and difficult. You may say, if you want to put it mathematically, it was 50 per cent more difficult because of the increasing of the 32,000,000 to 48,000,000 between the time when the bankers' agreement was first talked about and the time when it was actually made. Of course we could have adjusted the matter by fixing a high rate of exchange—that is, by giving a

very low value to the new coin; but the business community there, the Government and everybody practically who took an interest in the subject, insisted we should not take the actual exchange, but take something between that and the old parity.

As you will see in the appendix of this report, many petitions were presented for fixing a rate of exchange at 1,000 or 1,200, and the Government, too, issued its decree in the summer of 1911 in which they said in effect that 1,200 should be the rate. Therefore, we were more or less under duress, even if we had wished to fix a rate as high as 2,000 or 1,666 or 1,400 odd, because we found sentiment practically unanimous that the rate should not be as high as that.

Senator SMITH of Michigan. At what was it fixed?

Mr. CONANT. It was fixed ultimately at 1,250.

Senator SMITH of Michigan. Twelve and one-half?

Mr. CONANT. Yes. That made the old peso worth exactly 8 cents in United States currency.

We left the matter of fixing it open. Even in this report you will not find it fixed. We only provided it should not be more than 1,500.

Senator SWANSON. That gave them, then, a parity of about \$6,-000,000 of paper money?

Mr. CONANT. Yes. But that is not the whole story. They were not able to float that much, and we knew they were not.

Senator SWANSON. What is the population?

Mr. CONANT. Roughly, from 500,000 to 600,000. That would be about \$10 per capita.

Senator SWANSON. About \$10 per capita of paper money.

Mr. CONANT. But nobody pretended they could absorb that, and I will say further that the amount had not been in circulation. Large amounts of the later issues were held by individuals, were locked up, many of them, in the custody of the banks there, and therefore they did not constitute in any proper sense a part of the circulation.

Senator POMERENE. What do you mean by saying, "locked up"?

Mr. CONANT. People who had received the money in payment of debts or claims had put it away. They did not put the money in banks as an open deposit. If they put them in the banks it was as a safety-box deposit.

Senator POMERENE. What was the reason for that?

Mr. CONANT. There were several reasons. Among other reasons, they probably realized that the country could not absorb them in circulation, and another reason was the desire for speculation and exchange. If they had put them in when exchange was at 2,000, or if they had bought exchange on New York at that rate, they would not have received nearly so much gold equivalent as if exchange was forced back to a thousand. You can see that they could do twice as well with the exchange at 1,000.

Senator POMERENE. Was this speculation general or was it confined to a certain class?

Mr. CONANT. It was as general as anybody had the money to do it, I think. I think like some ill-considered speculations on the curb in New York, a great many people went into it and nearly all lost. But those who actually held their money, who were able to carry it through, probably made something ultimately, although they lost the interest in the meantime.

Senator POMERENE. Were they of the official class or others?

Mr. CONANT. Well, I have not any list of those people, you know. I do not know specifically about special deposits in the banks.

Senator POMERENE. I understand that, but did your inquiry down there enable you to state whether this was the official class that was speculating in this currency, or some one else, or was it of a general character?

Mr. CONANT. General—I should say both. I would not say all officials, but I do not think the officials felt inhibited from doing it; but many others besides officials probably engaged in it also. That was probably the reason some of them were so strenuous that the exchange should be fixed at 1,000 or 1,250. We would not consider a thousand, but the problem presented when 1,250 was fixed in our minds as a possibility, was that we must clean up the excess by its actual retirement and cancellation, that the \$6,000,000 gold equivalent which the Senator from Virginia speaks of never could be absorbed by the people. In fact, there is a table here showing what the gold equivalents were prior to those large excess issues, and the gold equivalent ranged from \$1,154,000 up to more than \$1,518,000. That is the highest up to 1910. That is, taking the amount which had been issued and dividing it by the rate of exchange we found that the gold value in United States currency was \$1,256,000 for the year 1909, and the variation, you see, was not more than 16 per cent of 17 per cent in gold value, although the issues had in the meantime multiplied more than 100 per cent.

Senator SWANSON. As I understand, you endeavored to fix the exchange value, which ultimately fixed the value of those issues, at 1,250?

Mr. CONANT. Yes; that was done.

Senator SWANSON. Will you tell us how that was done, and how it was endeavored to keep it at that price?

Mr. CONANT. Yes; I shall be glad to. But we never undertook to keep 48,000,000 paper at parity or to convert 48,000,000 into new money at a fixed rate without retiring a considerable part of it, and that is part of the reason, not the whole reason, why it was necessary for them to obtain additional money.

As soon as we had looked the situation over we discovered two things—

Senator SMITH of Michigan. That is, an additional loan?

Mr. CONANT. Yes; an additional loan. We discovered two things: First, that this excess issue was altogether too heavy for the country to stagger under; and second, that their fiscal affairs were in very poor shape, and that they needed money not only to reduce the excess circulation, but to put them a little nearer to an even balance sheet in their income and outgo. We spent a great deal of time in going over the balance sheet, and we finally found, I think, that even with certain economies there would be a deficit of 5,500,000 pesos, which at the rate of, say, 1,500 exchange, would amount to \$300,000 or \$400,000. That is the annual deficit we computed there would be even under a pretty rigid administration of the finances. That does not seem much to us, but it represented a great deal to them. I do not remember the full amount of the budget now, but it represented probably three-twentieths of their whole income and outgo.

Senator SMITH of Michigan. That is 75 cents per capita?

Mr. CONANT. It was trifling per capita, but its relation to the whole budget was considerable. It was for that reason that we put the facts before the bankers with the hope that they would make some further advances or modify the terms of the first contract, which they ultimately did.

You have, of course, all the contracts in evidence—

Senator SMITH of Michigan. We have not got them all. We have a portion of them. There is a supplementary contract or two that we have not got.

Mr. CONANT. You have the supplementary bills contract, have you not—the one dated March 26, 1912?

Senator SMITH of Michigan. Yes; we have that.

Mr. CONANT. That is the one I knew about the most, because it was arranged when I was in Nicaragua. What has been done subsequently to that in the way of additional loans I am not informed about as to details, because I am not a member of the banking firm, and my function practically ceased when I came back from Nicaragua.

But what I may call our recommendation, although we did not put it so strongly as that, because we did not feel we were authorized to urge anything, but we put the facts before the banks as to the deficit in the budget, and as to the need for doing something to eliminate this extra paper, and they thereupon came forward with proposals, which resulted in the supplementary agreement.

Of course, there were many cables back and forth, and conferences, before they received their final shape, but, ultimately, \$30,000 a month was advanced for some eight and one-half months up to October 15, 1912, for budget purposes only. That, you see, would about cover the deficit I have stated—\$300,000 and odd a year. Then, in addition to that, the bankers agreed upon a credit of \$500,000, in addition to the amount already available, for the exchange fund. The operation of the exchange fund when it went into effect was—

Senator SMITH of Michigan. You say they agreed to do that? Did they do it?

Mr. CONANT. Yes.

Senator SMITH of Michigan. What became of that fund?

Mr. CONANT. It was very heavily drawn upon. The portion put into the exchange fund was heavily drawn upon for the retirement of the paper, as it was expected it would be. The other money was paid over month by month to the Government, and was disbursed, and then subsequent contracts have been made, with whose details I am not so familiar, continuing or renewing the loans. They were paid, of course, from the customs, and the customs have proved very profitable in times of peace since they have been handled by the bankers.

Have you the last annual report of the Collector of Customs?

Senator SMITH of Michigan. No; we have not. I think we ought to have that.

When you reached there in 1911 were the bankers in charge of the customs?

Mr. CONANT. The new American collector reached Panama while we were there. He did not go down on the same steamer with us.

Senator SMITH of Michigan. What was the name—Ham?

Mr. CONANT. Yes; Col. Clifford D. Ham.

Senator SMITH of Michigan. He reached there while you were there?

Mr. CONANT. Yes. He took immediate charge. Under the contract he was to take immediate charge, and our work was to be done as soon as we could possibly do it.

Senator SMITH of Michigan. But the moneys had not been advanced yet?

Mr. CONANT. No; the moneys were to be advanced for the currency reform, primarily. They could not be advanced until we had perfected the plan.

Senator SMITH of Michigan. You were there from—

Mr. CONANT. From about December 24, 1911.

Senator SMITH of Michigan. From December to March?

Mr. CONANT. March 28 was the day I left.

Senator SMITH of Michigan. And during all that time, practically, the banks were in control of the customs?

Mr. CONANT. They were collecting the customs; yes.

Senator SMITH of Michigan. In anticipation of the reformation of the currency later?

Mr. CONANT. Yes.

Senator SMITH of Michigan. But they proceeded to collect the customs in advance of this?

Mr. CONANT. Yes; that was in accordance with the agreement. Of course, when you say from the day of our arrival, December 24, it took several weeks for Col. Ham to complete his arrangements and for the service to be turned over at the principal port, Corinto, and probably they were not turned over for several weeks after that at the more remote ports. It was in accordance with the treasury bills agreement that the bankers should lend this money, and should forthwith be put in charge of the customs for its reimbursement. Month by month certain amounts were to be turned over to the Government. We encountered, as I say, a very serious situation of affairs, because business there was prostrate, and that is what made it so much more difficult to fund this amount of paper than if conditions had been favorable. Everything was in a state of uncertainty.

The CHAIRMAN. You found about how much paper outstanding?

Mr. CONANT. 48,000,000 pesos.

The CHAIRMAN. When you reached there?

Mr. CONANT. Yes.

The CHAIRMAN. Did your plan contemplate the further issue of paper?

Mr. CONANT. Not until this was all retired and a paper based upon gold put into its place. On the contrary, we contemplated its very radical reduction. The gold value of the peso had fallen to 5 cents American money.

Senator SMITH of Michigan. But the volume had been practically doubled before you reached there?

Mr. CONANT. Within the last two or three years. ✓

Senator SMITH of Michigan. Before you reached there?

Mr. CONANT. I would not quite say that. I do not think your figure of 24,000,000 in one year is quite correct.

Senator WILLIAMS. In that connection, is the paper money of Nicaragua, such of it as is now outstanding, at par?

Mr. CONANT. Yes; at the new gold parity that we fixed. We substituted new notes for the old money, except as we had to retire the old money.

Senator WILLIAMS. Are those notes at par?

Mr. CONANT. Yes; they are at par now, the notes of the National Bank of Nicaragua, and what few remain of the old notes are at par at the rate of exchange which was fixed, which was 1.250. There is still some \$250,000 in gold value of the old notes in circulation. Of the new ones, the gold value is approximately \$1,800,000. Some of those old notes have been probably lost or destroyed, and probably never will come in for redemption.

The CHAIRMAN. Have you any information worth while as to the amount of the old notes still outstanding, which you say are at par at 1.250?

Mr. CONANT. Yes; I think it is easy to calculate the difference between the amount reported outstanding and the amount which has been incinerated. The notes incinerated are those which have been redeemed, either in exchange or new notes, and have been destroyed under the supervision of a committee of merchants. I can give you those figures. Our report shows that the total circulation of old paper on December 31, 1911, was 48,557,000 pesos. The incinerations up to May 21, 1914, just a month ago, were 44,781,554 pesos, leaving outstanding still, according to those figures, about 3,800,000. The figures furnished by the bankers are two and one-half millions. Whether they have any advices as to amounts later destroyed I do not know, but somewhere about 2,500,000 is the amount of old paper outstanding, but undoubtedly a lot of it has been lost or destroyed, because you see the minimum denomination, which was 50 centavos, half a peso, had fallen to the value of 2½ cents; and a man does not take the same care of a 2½-cent piece of paper as of one worth four or five dollars. It was in horrible condition; on much of the old paper you could hardly distinguish the denomination. It was in large part ragged, and much of it had been undoubtedly lost, or hidden away in corners, or washed away by the rain.

The CHAIRMAN. What is the amount of the bank paper outstanding?

Mr. CONANT. At present it is about 1,686,000 cordobas, the cordoba being equal to the American gold dollar, and that is about all the country could absorb at the present time, evidently. It could absorb more if the business conditions were better. Of course we took—

Senator POMERENE. May I ask you right there: What was the real purpose of issuing this large amount of paper money down there, if you know?

Mr. CONANT. Simply because the Government needed the money. The Government was in continuous deficit, and they thought it an easy way to pay the obligations.

Senator SWANSON. Was all this money issued for governmental purposes, to pay its running obligations and debts and salaries?

Mr. CONANT. Very largely, including claims arising out of the civil wars, bounties paid to soldiers, and claims for one thing and another.

Senator SWANSON. Did the Government receive this money back in payment of taxes?

Mr. CONANT. Yes; and that was, of course, another source of great injury to their resources. The gold value of the customs receipts fell off radically, because while they had advanced the rate for customs some years previously to 650—that is, requiring a man to pay 650 pesos on a customs rate of 100, when the exchange had risen to 1,800—it split the gold return even at that rate into one-third. Of course we recommended, with the approval of the importers and merchants, to fix the rate at 800, and then to reduce the exchange to 1,250, which very materially improved the customs receipts as soon as it went into effect.

Senator SWANSON. Still that entailed a loss of 450 at that ratio on the Government. If the ratio was fixed at 1,250, and for customs receipts at 800, the payment for customs was a loss to the Government?

Mr. CONANT. But it was a theoretical loss. The Government had never received the full rates. They never had been paid in full gold value, so that when we advanced the rate from 650 to 800 we really advanced it a great deal more than that in fact, because the exchange had been 1,800 and the customs rate 650. The exchange had been, say, 1,950 at the time and the customs rate 650. So you see they were really getting one-third of what they ought to have gotten theoretically. When we reduced the exchange rate to 1,250 and fixed the customs rate at 800 they were getting two-thirds of the theoretical value, but never did they get the full theoretical value, either under Zelaya or the Government of the revolution, or anyone.

Senator SMITH of Michigan. Let me direct your attention to this: Mr. Cuadra said that between the 28th of April and the 24th of October, 1911, there was emitted \$23,420,000 of that paper currency. Of course, you took cognizance of that when you got there?

Mr. CONANT. Yes; we were aware of that.

Senator SMITH of Michigan. That formed part of the plan you are now describing?

Mr. CONANT. Yes. Of course, you could not distinguish that money from other money. The figures that we had, though, showed that at the close of 1910 there was about 31,000,000 outstanding, and at the close of 1911, 48,000,000. Perhaps, of the issue you refer to, some had been withdrawn, making the net increase not quite so large.

Senator SMITH of Michigan. Can your figures be harmonized? Before Diaz went in, 25,000,000 was the circulation; add 5,635,000, which would make 31,000,000 or 32,000,000?

Mr. CONANT. You mean the amount outstanding?

Senator SMITH of Michigan. Yes. And this 23,000,000 was added?

Mr. CONANT. But some was retired in addition, I think. During the present Government, to the close of October, 1911, the cancellations were 5,500,000, and then from November 1—

Senator SMITH of Michigan. 5,635,000. That is all right, I have just given that figure.

Mr. CONANT. That may be correct, and may be more specific than this figure we have. Then there were some further incinerations from November 1 to the date of our report in the spring of 1912.

Senator WILLIAMS. Some further what?

Mr. CONANT. Some further incinerations, burning up of the old paper.

Senator SWANSON. You treated all of the issues, regardless of the exchange, precisely alike?

Mr. CONANT. Yes; as homogeneous issues, because they were circulating in that way. A man did not put any different value on a new one than an old one. That would have been just as practicable as for us to have taken a greenback issued in 1860, and say it is more valuable than one issued in 1867.

Senator SMITH of Michigan. You took it as the same value?

Mr. CONANT. Yes; we could not do anything else.

Senator SMITH of Michigan. Regardless of how it came out or the purpose of it?

Mr. CONANT. It was legal-tender paper money.

Senator WILLIAMS. When the old issues went back to a certain point they carried the new issues with them?

Mr. CONANT. Yes; absolutely.

Senator SAULSBURY. I do not know whether I have straight in my mind the practical effect of your fixing of the import duties at 800, and the exchange value at 1,250. Was it to make the import duties payable in gold, with a rebate on the duties of about 30 per cent? Is that correct?

Mr. CONANT. You might put it that way. As a matter of fact, though, the nominal duties fixed in gold were higher than had ever been collected by any government. You see, the old unit was silver, not gold. In 1893—this tariff is long subsequent to 1893, but in 1893, when the first paper was issued, it was supposed to be at par with silver, then worth nearly 50 cents gold. When the new tariff was perfected, I think in 1908, this money had already greatly depreciated. The Government, however, said, "We will take this paper at 6½; that is, we will require six and a half times as much paper as the silver equivalent would be." We raised that rate to 8. That was not all we did. If we had only raised it to 8 the effect would have been slight, if the exchange had remained at 2,000. But when we brought the exchange down to 1,250, you 8 became in effect two-thirds of the value—nominally the gold value—which had never been enforced or collected. We consulted the merchants about that, and at first we were a little timid about putting it at that, but they all said, "For God's sake give us a sound currency, and we do not care what we pay in customs duties. Before the big depreciation occurred we were paying pretty high duties, and we have not changed our prices radically on account of the reduction of duties. We have got to guard against fluctuations of exchange. We do not care where you put the duties if you give us a stable exchange."

Senator SWANSON. As I understand, you tried to fix the exchange value of this money at 1,250?

Mr. CONANT. Twelve and a half of the old pesos for one of the new.

Senator SWANSON. And the customs rate was fixed at 8?

Mr. CONANT. At 8.

Senator SWANSON. Who got the benefit of this exchange being fixed at 1,250? How was that done? By what process?

Mr. CONANT. Any holder of the old paper, whether he held one peso or a million pesos, of course get the benefit of the change.

Senator SWANSON. That is, he could carry it to a bank and they would pay him in New York exchange at that ratio for it?

Mr. CONANT. Yes.

Senator SWANSON. What bank did that?

Mr. CONANT. The National Bank of Nicaragua, constituted by the Bankers.

Senator SWANSON. That bank was the one to furnish this exchange at 1,250?

Mr. CONANT. Yes.

Senator SWANSON. To any merchants?

Mr. CONANT. Anybody got it.

Senator SWANSON. Was the amount limited that could be issued in a year on that exchange or all that was brought in?

Mr. CONANT. All that brought in on the amount of the outstanding circulation. That is the only way to bring about stability. You could not do it by partial redemption.

Senator SWANSON. It was not all done at once?

Mr. CONANT. Of course, they brought it in at different times. The offer was to accept it for exchange at that rate.

Senator WILLIAMS. If it had all come in at once it would have all been done at once?

Mr. CONANT. Yes.

As a matter of fact it was not done at 1,250 at once. The law did not fix the rate except to say that it should not be more than 1,500, and that was only to take effect after a certain date, so that in order to get the paper in as cheaply as possible at its ratio to existing conditions, a considerable amount was taken at 1,600. In fact, it was necessary to test the question before we dared to fix 1,250, to see how much paper would be offered at 1,600, how much would be absorbed, and whether it would have any effect in breaking the rate, just as after the big gold exports from New York finance bills have been offered to see whether the exchange rates would break after these big exports. For a time there was no break, and people were glad to bring in their paper at 1,600 and get 100 for it, because they were so afraid of the old paper, and turned it into gold, partly because they had so many obligations in New York or in Europe, which they had not been able to discharge except at an appalling loss when the exchange was at 2,000. The bank was not open at this time, but the manager at first sold exchange at 1,600, I think, and he sold a great deal, then it came down to 1,500 and to 1,400. It was not until after a considerable lapse of time—in the spring of 1913—that the rate of 1,250 was made operative.

Senator SMITH of Michigan. You speak of the manager of the fund.

Mr. CONANT. The representative of the bank in cooperation with the minister of finance, Mr. Cuadra.

Senator SMITH of Michigan. Brown Bros. were the men who were represented in the bank?

Mr. CONANT. The syndicate.

Senator SMITH of Michigan. That is what you mean by the bank?

Mr. CONANT. Yes; it was the bankers, but everything was done in cooperation with Mr. Cuadra.

Senator SWANSON. While you call that exchange, you do not mean that was New York exchange?

Mr. CONANT. Yes; exchange on the money which the banks had loaned to the Republic for this purpose.

Senator SWANSON. For instance, if a man had \$50 he was given exchange on New York City?

Mr. CONANT. No; the minimum limit of drafts sold by the treasury was \$5,000, and if a man had \$50 and wanted to convert it into New York exchange, he would go to one of the local banks. They would sell it to him for a little fraction more because of the subdivision. But the local bank could come to the treasury and get these drafts—come to the representative of the bankers and get these drafts—in \$5,000 lots, just as fast as necessary, just as a buyer of odd lots on the New York exchange will wait until he has lots equaling 100 shares, and then go into the market and buy 100 shares. But with that limitation there was no restraining power upon the sale of exchange to any man who held the paper of the Republic, the idea being to reduce the amount which was in circulation. We did not expect to maintain, even at 1,250 or at 1,600, the amount then in circulation. We expected to absolutely annul and destroy part of it, and that had to be paid through the proceeds of these supplementary loans.

Senator SMITH of Michigan. If the bankers picked up this paper money at their own price, we will say, the Republic was in a sense bound by the ratio of $12\frac{1}{2}$ to 1?

Mr. CONANT. No; all this was done as an agent of the Republic. The bankers did not benefit by the differences in exchange. They were doing this in order to reduce the liabilities of the Republic as far as possible. The money in New York was the Republic's money, and whatever drafts were sold at any given rate, the Republic got the benefit.

Senator SMITH of Michigan. But you speak of taking this money to various local sources—

Mr. CONANT. You are speaking now of the local banks?

Senator SMITH of Michigan. I am speaking now of local banks. Any local banker or speculator who picked this money up and held it could have it redeemed by the Republic itself, if redeemed at all, at the ratio of $12\frac{1}{2}$ to 1, which was the agreed ratio?

Mr. CONANT. Not until the rate of $12\frac{1}{2}$ had become effective. There were not two ratios at the same time.

Senator SMITH of Michigan. But if it did become effective it ripened the ratio of 20 to 1 into $12\frac{1}{2}$ to 1, did it not?

Mr. CONANT. That is true. If a man was persistent and courageous and held his currency right through, he got the benefit.

Senator SMITH of Michigan. But anybody who knew in advance it was going to be ripened—

Mr. CONANT. Just as in the United States a man who held the greenbacks persistently from 40 to par got the benefit of it. Of course he lost the interest when he was holding them.

Senator SMITH of Michigan. Exactly; but he made it up on his principal when he finally cashed in.

Mr. CONANT. Of course, it is an economic problem whether a new standard is fixed at existing exchange, or at the original parity.

Senator SWANSON. Why did you adopt this New York exchange method, instead of having the money there with the Nicaragua Bank?

Mr. CONANT. Because they would have had to have boxed the gold up and shipped it in order to have paid their New York and European obligations, and we believed this exchange method to be more

effective. When you are on a sound basis and there is not a panic, it affords the means of control and protecting the gold reserve of the Republic, just as we instituted our Federal reserve system in order to protect the gold stock, and not have the Treasury stand with open doors for anyone who comes up.

Senator SWANSON. You felt that by this provision gold would be shipped to Nicaragua as needed?

Mr. CONANT. There has been no gold in Nicaragua, either before the reform or since, but the Nicaraguan business man or banker can now obtain what is called gold in conversation. It is not physical gold. He can obtain gold to pay his obligations in Europe or New York, and that is what he wants.

Senator SWANSON. The idea I had was that by this exchange method the holders of large sums of this Government paper would get the advantage better than the holders of small sums, because it was to the advantage of the large merchants or large bankers to the exclusion of those who go in small amounts.

Mr. CONANT. Only to the extent that the man who held a small amount, if he wanted exchange at all, he might have to pay a small fraction for the subdivision, just as you would pay a higher rate to a bank here for a \$50 draft than one for \$5,000.

The CHAIRMAN. You say there is no gold there?

Mr. CONANT. No physical gold in Nicaragua. There is not in the Philippines, either, you know.

The CHAIRMAN. Of actual money, none has been sent from New York to Nicaragua?

Mr. CONANT. No; not that I know of, by the banks.

The CHAIRMAN. Mr. Conant, the national banks, in issuing notes, the current money, intended it to be absorbed as such in place of these pesos?

Mr. CONANT. Yes.

The CHAIRMAN. What kind of money? It is on a gold basis?

Mr. CONANT. It is on deposit in New York. You know it is the same system that prevails in the Philippine Islands. We have no gold in the Treasury. The thing people want gold for in these exporting countries is to pay their debts in gold countries.

The CHAIRMAN. Can this money be used to exhaust the gold supply in New York?

Mr. CONANT. If the gold supply is inadequate, yes.

The CHAIRMAN. It can be turned over and over?

Mr. CONANT. No; unless the bank loans it out again on good assets it will stay in the bank when it comes in, or stay in the treasury fund. The bank, according to the theoretical plan outlined in our report, was to have two departments, very similar to the Bank of England, one dealing with currency and the other with banking. Whenever currency was put in for exchange, it would remain locked up in the Treasury Department until there was a demand for it, and that demand might come theoretically, although I am sorry to say it has not very largely yet, by people coming into the New York depository and buying exchange on Nicaragua. If a man had heavy obligations to meet in Nicaragua—suppose he had a contract to repair the railroad, and he desired to spend American money paying wages there, he would come into the New York depository, buy exchange on the National Bank of Nicaragua, and pay in American money according

to the exchanges here, which would replace drafts made the other way. That is the way we do it in the Philippines. That is the way British India maintains her \$600,000,000 worth of silver at par.

Mr. SMITH of Michigan. The bank holds \$600,000 of gold, does it not, back of this currency?

Mr. CONANT. They have not quite that amount now.

Senator SMITH of Michigan. Between \$500,000 and \$600,000?

Mr. CONANT. Something like that.

Senator SMITH of Michigan. Where is that held?

Mr. CONANT. In New York, chiefly.

Senator SMITH of Michigan. Where?

Mr. CONANT. The United States Mortgage & Trust Co.

Senator SMITH of Michigan. The United States Mortgage & Trust Co. are trustees for that gold fund, which is the basis for the resumption which has taken place in Nicaragua?

Mr. CONANT. Yes.

Senator SMITH of Michigan. I am right about that, am I not?

Mr. CONANT. Yes; they are the trustees.

Senator SMITH of Michigan. They are the trustees, and that is all the gold that there is back of that circulation?

Mr. CONANT. Of course it is all the gold, if you speak of the gold as distinct from good assets.

Senator SMITH of Michigan. I am just speaking of the gold. That is all there is back of it, and that is in the United States Mortgage Co. in New York, under one of these agreements between Nicaragua and the bankers?

Mr. CONANT. I think it is not quite all there.

Senator SMITH of Michigan. Am I right about that being under the agreement?

Mr. CONANT. Yes; you are right in regard to the bulk of it, but of course they carry down there some cash. I do not know in what form. They probably carry some American money.

Senator SMITH of Michigan. As the bankers do?

Mr. CONANT. Yes; in the National Bank of Nicaragua.

Senator SMITH of Michigan. Which is practically an American institution?

Mr. CONANT. Yes; the bankers own 51 per cent of it.

Senator SMITH of Michigan. Do not let us turn you from your course, Mr. Conant.

Senator SWANSON. What is the system you devised there?

Mr. CONANT. The system I devised there was substantially similar to that I devised for the Philippines, which has proved to be successful, because in the Philippines confidence has prevailed and business has gone on, and through the seniorage on the silver coinage in the Philippines and the interest on deposits in New York and the premiums on the drafts they have actually made a profit on the silver coinage. They had up to two or three years ago, which is referred to in my report, a profit of \$10,000,000 on a circulation of about \$40,000,000, and Nicaragua will do the same in the same proportion. Of course, the amount is smaller in Nicaragua, but the situation has been such that the draft on the exchange fund has been very heavy, and it has been necessary to replenish it.

Senator SMITH of Michigan. Just to direct your attention to a thought that Senator Pomerene and I have just spoken of. This

funding or redemption of Nicaraguan currency on a so-called gold basis places the control of the issuance of money in the hands of the bankers. No money can now be issued by the Government of Nicaragua, no paper money, and put out as it was put out just before you reached Nicaragua?

Mr. CONANT. That is true. The Government has contracted not to issue irredeemable paper or Government paper.

Senator SMITH of Michigan. So that the stability of that paper consists in the promise of the Government not to issue any more money down there for any purpose whatsoever, except by the consent and through the bankers who administer their customs. Am I right?

Mr. CONANT. You are right as to the legal aspect of it. Of course, as to the economic aspect, you can always get money if you want it by coming to the bank and getting discounts and having notes issued.

Senator SMITH of Michigan. To the bank, but not to the Government?

Mr. CONANT. No.

Senator SMITH of Michigan. The Government can not issue any?

Mr. CONANT. The Government can not issue any, any more than our Government can.

Senator POMERENE. To make your thought complete, you say the Government contracted not to issue? Do you mean with this bank or the bondholders, or both?

Mr. CONANT. With the bankers representing the bondholders. Not with the bank per se, because the bank was not in existence.

Senator POMERENE. We have a national bank down there, or something that is akin to a national bank in Nicaragua. Was this contract with that bank or with the New York and European bankers to hold a certain amount of the bonded indebtedness of the Republic?

Mr. CONANT. First, may I ask you do you mean to imply there was a national bank, which was essentially Nicaraguan?

Senator POMERENE. Well, I have heard of a national bank since these hearings began.

Mr. CONANT. That is the Bankers' Bank. There was a bank once, but it was not national. It issued notes, but Zelaya simply took the privilege away from them in 1893.

Senator POMERENE. Then, the contract you speak of was one with Brown Bros. & Co. and J. & W. Seligman & Co.?

Mr. CONANT. That is correct.

Senator SHIVELY. Where does the issue function down there reside, if it is at all active now?

Mr. CONANT. If the situation is once cleared up, and the demands for exchange are not more acute than for ordinary business accommodation, the demand for currency will be met by the discount of paper through the bank.

Senator SHIVELY. Would that be in the form of new currency?

Mr. CONANT. Yes; if necessary. It would depend what they had on hand beyond that. I think there is no limit to expansion if the conditions favor it.

Senator SWANSON. What are the conditions governing that?

MR. CONANT. They are stated fully in the report here. Our proposition was that they should have a fiduciary issue of 30 per cent, that they should hold 40 per cent in cash, which might be kept down there. Mr. Harrison, my colleague, was very much in favor of keeping it there. I was not so keen on that; but it could be done on the plan agreed on, and 30 per cent in commercial paper. That would cover the notes. That does not limit their ability to discount commercial paper with currency coming into the banking department. This, I have just stated, is the composition of the issue department, and if there is a demand for new currency it would come through the presentment of paper for discount. Then, if the assets in the currency department were inadequate, it would be their business to increase their gold on the 40 per cent ratio in order to grant the new discounts, and, of course, the profits they would make on the new discounts would fully justify them in doing that. They would simply arrange that loan with New York and add it to the reserve. Of course that is all in the future. We can not get to that condition until stability exists.

THE CHAIRMAN. I want to get one or two things clearer than I have. There was what was called a National Bank in Nicaragua before you went there?

MR. CONANT. You mean prior to the revolution? No; there was a bank which had the privilege of issue; but I do not think you would call it distinctively national. That bank was practically put out of business by Zelaya. They made a claim that they were illegally put out of business, but that did not make any difference.

THE CHAIRMAN. Then we were told here that Brown Bros. and Seligman purchased 51 per cent?

MR. CONANT. That is the new institution which their contract called for. That is absolutely independent of any preexisting bank. The National Bank, which is usually referred to as a new national bank, is a product of the recent arrangement.

THE CHAIRMAN. That bank, then, was established after you had devised the plan?

MR. CONANT. Yes.

THE CHAIRMAN. And the New York bankers took 51 per cent of the stock?

MR. CONANT. Yes.

THE CHAIRMAN. Who holds the 49 per cent?

MR. CONANT. The Government of the Republic of Nicaragua.

SENATOR WILLIAMS. That bank was a part of your financial scheme, was it not?

MR. CONANT. Yes; that had been partially arranged by the bankers before we went there, while the national bank would be an actual corollary of such—

SENATOR WILLIAMS. That bank is the keystone of the scheme?

MR. CONANT. Yes.

SENATOR POMERENE. You adopted it as part of your scheme?

MR. CONANT. Yes.

THE CHAIRMAN. Was it a part of your scheme to put the representatives of the bank in control of the customs?

MR. CONANT. Of the bankers—not of the bank.

The CHAIRMAN. How did you distinguish the bankers from the bank?

Mr. CONANT. Messrs. Brown Bros. and Seligman & Co. are big independent houses. They have lent this money to Nicaragua, not the national bank. The national bank is simply the agent of the Republic of Nicaragua in the readjustment of this currency system.

The CHAIRMAN. This Col. Ham is the representative of Brown Bros. and Seligman?

Mr. CONANT. Yes; he is not the representative of the National Bank of Nicaragua, particularly.

The CHAIRMAN. The purchase of a majority of this railroad stock, which I understand was also made by the bankers in New York, was that part of the scheme?

Mr. CONANT. The only part Mr. Harrison and I had to do with that was to call the attention of the bankers to the fact that the Government was ready to pledge the railroad as collateral security for the increased loan, which we rather recommended. "Recommended" is a stronger word than I should use, because we were not doing anything but lay the facts before them. Did you say "purchase of the railroad"?

The CHAIRMAN. Yes.

Mr. CONANT. The purchase was long subsequent to anything Mr. Harrison and I did, and I would not undertake to go into very much detail about it.

The CHAIRMAN. As far as you were concerned it was a part of your plan—

Mr. CONANT. It was no part of our plan to purchase the railroad.

The CHAIRMAN. No. I was going to say this: So far as your plan went, it contemplated the pledge of the railroad as additional security?

Mr. CONANT. Yes; that was all.

The CHAIRMAN. And subsequently they purchased 51 per cent of it?

Mr. CONANT. Yes.

The CHAIRMAN. Did you have any definite information when you were there as to the value of the railroad?

Mr. CONANT. There was some conversations about it. I think the Government first put the value at \$3,000,000, and then the bankers offered a little less, and, as in most bargains, they came to an agreement. I did not understand that there had been any physical valuation. In fact, I think our physical valuers would throw up their hands if they saw the condition of the property. Everything is in a dilapidated state. The highways are gullies. You can hardly go anywhere except on an oxcart. The uncertainty regarding all these conditions of the currency and business leads to the unwillingness of anybody to invest capital, whether native or foreign, while this condition exists or while there is danger of its recurrence.

Senator WILLIAMS. How long has there been substantial anarchy—

Mr. CONANT. I do not know that you would call it substantial anarchy. It was official tyranny.

Senator WILLIAMS. Both tyranny and anarchy?

Mr. CONANT. More or less.

Senator WILLIAMS. Tyranny as far as the Government was concerned, and anarchy as far as everything else was concerned?

Mr. CONANT. Yes; as far as business was concerned nobody dared take any risk, because the proceeds would be taken away from them by the Government, or seized by the revolutionists. I went out one time with an Englishman who had a plantation 10 or 12 miles from Managua, the capital, where he was raising milk to send down to Managua. He sent it down partly by oxcarts over these impossible roads, and a little by rail. He was not very far from a railroad station. We went there, and I said, "Why do you not get a steam launch to put on the lake, and take this milk down to Managua?" He said, "A steam launch—what is the use of getting a steam launch? If a revolution breaks out it would be seized by the Government or the revolutionists. We would never get it back, or if we did it would be of no use to us."

Senator SMITH of Michigan. You speak of nobody being willing to take a risk. Brown Bros. seem to have been perfectly willing to take a risk.

Mr. CONANT. They took a moderate risk in the hope that the treaty permitting the larger loan would be ratified by the Senate.

Senator SMITH of Michigan. They had the courage to take a risk, or do they take any risk? Did they make themselves so safe that there was no risk taken?

Mr. CONANT. They took a considerable risk, but, of course, they had the security of the customs so long as the Government of the United States would support them. Had there been a question as to the revolutionists taking away the control of the customhouse the risk was very great, and they had been under that risk continuously.

Senator SMITH of Michigan. Did the presence of our soldiers have any influence upon the stability?

Mr. CONANT. The presence of our soldiers had something to do with it, but the soldiers were not there when Col. Ham went down, nor for some months after.

The CHAIRMAN. What is the source of revenue?

Mr. CONANT. The customs principally, then the liquor tax and tobacco. And there you have practically concluded the list. There are some minor taxes in the way of merchants' licenses and things that could be charged by municipalities. There is practically no land tax, just as in Porto Rico, where we had so much trouble in following the American system of land tax. There would be a great deal of resentment if any land tax or property tax were proposed. We discussed them with the Government officials more or less. While they admitted it ought to be done sometime, they said it would be very difficult in the initial stages.

Senator POMERENE. I want to call your attention to a letter written by Mr. Cuadra to the Secretary of State under date of May 13, 1914, in which the writer attempts to give a statement of the indebtedness of the Government. Now, there were six items—

Senator SHIVELY. Where are you reading from?

Senator POMERENE. I am reading from page 34 of the hearings before the committee, Part I. There was the Ethelburga debt given as \$6,000,000. Will your investigation of the finances of the country enable you to state the origin of this debt, the amount the Government in fact received for it—I mean the Government of Nicaragua—

and the amount which the Ethelburga Syndicate had in fact invested in that \$6,000,000?

Mr. CONANT. No; I am not sufficiently familiar with those negotiations to answer those questions.

Senator POMERENE. Are you able to state where we can get that information?

Mr. CONANT. I expect the bankers who are to appear here next week can give that.

Senator POMERENE. You mean Brown Bros. and Seligman?

Mr. CONANT. Yes.

Senator POMERENE. Another matter; Brown Bros. and Seligman Co. hold \$1,060,000 of the indebtedness of Nicaragua. Are you able to state what these bankers in fact paid for that evidence of indebtedness?

Mr. CONANT. \$1,000,000. That is set forth in the last contract, I think.

Senator POMERENE. \$1,000,000 in gold?

Mr. CONANT. Yes, sir; in American money.

Senator POMERENE. Was there any commission—

Mr. CONANT. No commission beyond that, as I understand it.

Senator POMERENE. So that this was simply an indebtedness on which their only return is the interest?

Mr. CONANT. The discount of 6 per cent practically. Yes; that has been true of all their loans. There is perhaps a misapprehension about that, but as I am pretty well advised the loans which they thus far made have not involved any commission or rake-off except what is specified in the contract. If they were authorized, as proposed in the original contract, to issue a large loan in order to put the country on its feet, to operate railroads, and restore conditions, then they were to receive the loan at some discount below par. These have been made at par and every dollar has been paid into the exchange fund at New York or into the payment of claims.

Brown Bros., to the best of my knowledge and belief, have not made a cent, except, as I understand, there has been a commission on drawing the bills. That is usual, of course, in all banking operations; but so far as the principal representing any concealed commission or profits through the securities being sold to anybody at higher rates, I think there was nothing in that in these short-term loans.

Senator POMERENE. You do not apply that answer to the Ethelburga claim?

Mr. CONANT. I know nothing about that. There is this to be said, of course, on behalf of Nicaragua, that she has never defaulted for any considerable length of time in her obligations, not like the obligations of Honduras, for instance, which have been a long time in default. She pays the penalty for being honest—

Senator POMERENE. There is a third item here, designated as follows:

Correspondence, for orders executed in several years, \$378,080.

Do you know anything about that?

Mr. CONANT. I do not know that I could say specifically about that. Of course, there have been a great many expenses connected with these loans. That may include commission on bills drawn, which was fixed at 1 per cent, in some cases, I think.

Senator POMERENE. Do you know what this correspondence is?

Mr. CONANT. Not as you read it.

Senator POMERENE. Then there is what is called the Emery claim—\$500,000. Do you know anything about that?

Mr. CONANT. I know there was such a claim. You are reading a list of claims, not of payments.

Senator POMERENE. The outstanding indebtedness.

Mr. CONANT. I do not know enough about the Emery claim to discuss it intelligently. I know there is such a claim. I should doubt whether it should be paid in full.

Senator SMITH of Michigan. I show you a bond of the Republic and ask you whether that is in default, to your knowledge [showing bond to witness]?

Mr. CONANT. I believe there have been bonds issued at a late date by Zelaya that are in default, but so far as the old debts, incurred in time of peace, are concerned, and subsequent debts, there has not been any long-continued default.

Senator SMITH of Michigan. Twenty-five per cent of the customs pledged to secure the validity of this bond?

Mr. CONANT. This is a Zelaya bond, is it not?

Senator SMITH of Michigan. That is a 1905 bond. The customs are pledged to secure it, but it is in default.

Mr. CONANT. Wineburger—I understand that Mr. Wineburger's claims have been taken care of in some form, or will be when the large loan is made. I will not say absolutely they have not been in default, because they have been in default some few months recently, but I mean there has not been a continued repudiation as there has been in the case of Honduras. Do not understand me as saying that there has never been a day's default, because I would not assert that for a minute.

Senator SMITH of Michigan. This is more than a day. It runs into months.

Mr. CONANT. That has a disputed validity, perhaps.

Senator SMITH of Michigan. Oh, no; it has not. Brown Bros. have written, acknowledging its validity. I have their letters here.

Mr. CONANT. You are right about that. I suppose I can not speak by authority in these matters, because I am not a member of Brown Bros., and have no interest in these matters beyond having fulfilled my mission in 1912. I suppose the situation is that these things will be taken care of by compromise or otherwise, if the Senate ratifies the treaty, or when conditions are such that Brown Bros. feel justified in making the large loan which they originally proposed, and which was referred to in the original treaty.

Senator SMITH of Michigan. That is, when we guarantee the stability of Nicaragua by some such policy as pertains to Cuba, they will then go ahead and advance other moneys on the basis of that security?

Mr. CONANT. If this treaty is ratified I am inclined to think they would.

Senator SMITH of Michigan. There is no doubt about that.

Mr. CONANT. I have not asked them that recently. It is only an assumption on my part.

Senator SMITH of Michigan. Let me ask you—we are trying to get at the manner in which Nicaraguan affairs have been administered. You were employed by Brown Bros.?

Mr. CONANT. Only as agents of the Government of Nicaragua.

Senator SMITH of Michigan. Who paid you for your services?

Mr. CONANT. The money was paid by Brown Bros., but from the funds of the Republic.

Senator SMITH of Michigan. Was your account O. K'd by our Government?

Mr. CONANT. The Government of the United States?

Senator SMITH of Michigan. Yes.

Mr. CONANT. No; I do not think they were parties.

Senator SMITH of Michigan. Have you any objection to telling what you received for your services?

Mr. CONANT. No; the original contract was that I should receive \$7,500 and expenses, but we were delayed much longer than was expected, so it was raised to \$10,000 and expenses.

Senator SMITH of Michigan. That was the fee you obtained for your services?

Mr. CONANT. That was all.

Senator SMITH of Michigan. That the Republic was charged with, in Brown Bros.' payments?

Mr. CONANT. Yes.

Senator SMITH of Michigan. Did your colleague have the same arrangement?

Mr. CONANT. Exactly the same, as I understand.

Senator SMITH of Michigan. What was his name?

Mr. CONANT. F. C. Harrison.

Senator SMITH of Michigan. This, of course, is American money we are talking about?

Mr. CONANT. Yes; we are talking about American gold. Of course, carrying out the monetary reform was made difficult by the delays and uncertainties incident to affairs here in Washington.

If any treaty had been ratified it would have justified the bank in making a large loan, and then the Republic would have been able to pay off its legitimate debts and would have been able to put its budget on a sane basis, and foreign capital would have flowed in for railway building. But at the present time it is very difficult to get even Nicaraguans to inaugurate any new enterprises because of the fear of instability. That instance I related about a launch is only one of dozens of things you hear of on every hand. The three richest men in Nicaragua, I believe, when I went there were all Italian subjects. They kept their citizenship of Italy because it gave them a certain protection. One of them has since died. I do not know whether his son is an Italian subject or not. I presume his parents took care to have him born in Italy so as to have him such. In other words, they placed no confidence in the government of Zelaya, and they place perhaps not very great confidence in subsequent Governments, because they are exposed to the fear of revolution. Let the fear be removed, and then you will see a wonderful development in that country.

Senator SMITH of Michigan. You have referred several times to the government of Zelaya, but under the statement made by President Estrada, acknowledged by Mr. Cuadra, there was only issued during the Zelaya administration from 1906 to 1908 about 4,000,000 of new money, and the entire circulation in the Republic under Zelaya was 12,149,103.95.

Mr. CONANT. That is about correct.

Senator SMITH of Michigan. That does not show a very extravagant use of the power to issue money.

Mr. CONANT. The exchange was about 800 when it should have been 250 at parity. In other words, they depreciated it to $33\frac{1}{3}$ per cent of what it should be at parity.

Senator SMITH of Michigan. It varied from time to time. It was at one time about 250—about 2 to 1.

Mr. CONANT. That was the old original parity, but it was never anywhere near that for the 10 years preceding the revolution.

Senator SWANSON. You stated you had an article which you wished to have put in the record.

Mr. CONANT. Yes; there is an article from the North American Review written immediately after my return when all my impressions were fresh. While I do not suppose you would like to have it all, there are one or two passages I should like to have your attention called to.

(The article referred to is as follows:)

[From the North American Review, July, 1912.]

OUR MISSION IN NICARAGUA.

[By Charles A. Conant.]

To many who have not followed closely the ramifications of American diplomacy with the different nations of the earth, the question has perhaps arisen why the United States at the present time should be interesting herself so actively in Central America as to send there her highest executive officer below the President—the Secretary of State. To those familiar with the true conditions, however, the answer to this query is that the United States must interest herself in the maintenance of order and security for life and property, unless she wishes one or more of the leading powers of Europe to intervene. This might mean conflict over the Monroe doctrine and the assumption of a protectorate by either the United States or a great European power at the threshold of the Panama Canal.

At present American diplomatic influence is being exerted in certain countries of Central America to permit their people to establish such conditions of security and peace as will avoid the necessity of direct interference, either by this country or any other. It was to explain our purposes in this respect that Secretary Knox went on his mission of peace and good will to Latin America. It requires actual contact with these peoples to realize how different are their political and social conditions from those of the United States and western Europe. In the absence of genuine economic development through the use of labor-saving machinery and the orderly, uninterrupted labor of the masses in building homes, investing their savings, and adding to the common fund of wealth, the chief means of acquiring riches quickly is by spoliation. In too many cases the man without scruples who could once grasp the presidency of one of these countries has been able to keep it by force over a term of years sufficient for him to extort millions from the sweat and suffering of the laboring masses and transfer it to Europe for safe keeping, until at length the accumulating discontent of those whom he has robbed and the ambition of others to follow in his footsteps, have compelled him to flit across the ocean and spend his ill-gotten accumulations in those forms of sensuous vulgarity which represent the chief type of enjoyment to the man without ideals.

It has been thus over and over again in the southern countries with the Guzman Blancos, the Castros, and the Zelayas of recent years. The evil they have done has had ramifications moral, social, and economic. From the moral point of view the example has been held out to other unscrupulous adventurers to follow in the same path of spoliation, government by force, and neglect of the honest means of acquiring wealth. From the social point of view, both the classes and the masses have been discouraged from any ambition except that of living by public plunder. Long years of tyranny have bred a fever in

the blood, which can only be allayed by other years of quiet discipline in better government. From the economic point of view, there has existed practically the same evil as that of absentee landlordism—that the wealth of the country has been sucked away to be spent in vicious and unproductive luxury in a foreign land. From the fact of robbery of the rich by the tyrant of the moment has come also to the capitalist complete discouragement from the creation of new industries, while to the masses has come the dangerous lesson, that it was as contemptible as it was useless to expend their efforts in honest labor, when they could profit more by joining a revolution and acquiring a military or civil post.

On every hand in Nicaragua are evidences of former years of misgovernment and spoliation. Roads full of gullies, almost impassable except by ox carts, form the thoroughfares between leading cities. A large producer of milk for the capital, with his ranch close to the Lake of Managua, when asked why he did not send in his product by a steam launch instead of by ox carts, replied that if he put a launch on the lake it would be seized at the first outbreak of revolution, either by the government or the revolutionists, and would either be lost entirely to the owner or come back in too dilapidated a condition for further use. The breeding of fine horses has been given over for similar reasons—that whenever revolutionary disturbances break out, the ranches are raided and the horses taken for the regular army or that of the revolutionists. Even with the cattle it is much the same. A marauding band of trocys will kill them for the meat and leave the carcasses for the vultures.

Such money-making opportunities in Nicaragua as emerged above the storm-clouded horizon of civil war were seized upon by President Zelaya and his followers as sources of personal profit. Leases of the liquor and tobacco industries were made, at small compensation to the Government, to joint-stock companies, in which the president of the Republic or his dummy held big blocks of shares. The railway was leased to a separate company, which created a paper capital of \$1,200,000 without the investment of a penny, and handed over about a third of the shares to the public-spirited president who had granted the lease. Many minor monopolies were handled in the same manner. Special piers were authorized at certain ports, which importers were compelled to use in order that heavy wharf charges might be divided up between the original promoters and the powers at the capital. When some of the merchants at Bluefields, many of whom are Americans, asked for a revision of the tariff upon certain necessities of life, the dictator politely intimated that he had little use for foreigners, and that there were plenty of steamers leaving Bluefields which they could take if they did not like the Government. He graciously condescended, however, to promise a revision, which, when it reached Bluefields, proved to be in the nature of a grim joke—duties being reduced on a short list of such vital necessities as castor oil and pepper, without touching important articles of large importation.

Government like this in the southern countries has rested upon force, and a force which was not exercised with skilful tact by the gloved hand, as in the Rome of Augustus or the Antonines, but with the crude brutality of the tyrant who every moment fears assassination by the husband he has wronged or rebellion by the rival who envies his power and opportunities. The power of President Zelaya, who governed Nicaragua from 1893 to 1909, rested upon the loyalty of the soldiers. A few hundred in each of the leading cities were enough to maintain his authority in the absence of organization and monetary help to his opponents from abroad. Even under the present more lenient government of President Diaz, the fixed bayonet and the loaded musket are necessary badges of authority and order. A garrison looks down upon the capital, Managua, with loaded machine guns ready to fire at a moment's notice upon the thoughtless villager or tourist who comes too near them after dark without a password. The fever of militarism in its crudest and most wasteful form has been infused into the blood by years of tyranny and disorder. Although the Nicaraguan army has been reduced to 1,600 men, the rattle of drums, the parade of detachments through the streets, and the presence, until recently, of files of soldiers at the Government palaces indicate how completely government rests upon force.

Since the American intervention against Zelaya in 1909 some of these visible symbols of military rule have been disappearing under the helpful suggestions of Mr. Gunther, the brilliant young American who was until recently, chargé d'affaires at Managua, and with the cooperation of President Diaz and Gen. Luis Mena, the minister of war. The rifle shots with which Zelaya perforated

the heavy cement walls of his fortress at the Campo de Marte, on the outskirts of Managua, have been filled up. Policemen are being substituted for soldiers about the public buildings, and the citizens of Granada are urging the abandonment of the barracks in the heart of the city which form the hateful symbol of Zelaya's long tyranny. But these things can only be done with safely under the friendly influence of America. Everyone knows that neither the authority of President Diaz nor that of anyone who might be chosen in his place would endure for a week, unassailed by the plotters of revolution, if it was not supported by force visible and tangible or by the overshadowing power of the United States.

Men who opposed Zelaya were robbed of their property and driven into exile. The power of the love of home, however, and the disposition to labor and save even under the most adverse conditions, were well illustrated by the history of the city of Granada during these years of terror. One of the most prosperous commercial cities of Nicaragua, the heir of a long line of Spanish history and traditions, Granada was called by Zelaya the "rebellious city" and the "accursed city." Again and again, when he needed money, a notice went to a Granada merchant, a member of one of the few old families who are the center of the city's life, that he must produce 50,000 or 100,000 pesos within two or three days. On some occasions the demand was enforced by a cordon of soldiers directed to prevent ingress or egress from the house or the delivery of food until the demand was complied with. One of Zelaya's last official decrees (September 17, 1909), frankly announcing a forced loan of 1,000,000 pesos by its name (*imprescrito fuerza*), allotted 400,000 pesos to the department of Granada, and only 100,000 to each of the other two chief departments—Managua, the capital, and Leon, where the partisans of Zelaya predominated. By article 3 of this decree the civil head of the city was instructed to notify the "lenders" of their allotment within four days, and by article 4 to require them to pay in half their quota within three days and the other half within eight days more.

When the citizens of Granada refused to make Zelaya honorary president of their best club, he broke up the club and confiscated its house. When they held a masked ball, his soldiers dispersed the merrymakers at the point of the pistol. When the city showed undue signs of prosperity, he tore up the tramway. No wonder that in Granada and elsewhere exist sickness of heart and weariness of spirit over the possibility of these recurring reigns of terrorism, and the hope, often openly expressed, that American influence may be exercised, in some such form as that exercised over Cuba under the Platt amendment, in order that the long-stunted flowers of peace and order may thrive and blossom.

The United States and European countries are not free from exploitation and dishonest government. But one of the great differences between these advanced commercial countries and those of the south is that in the southern countries the enormous productive power of organized industry makes an occasional injustice on the part of the capitalist or government a negligible factor in the progress of the country. Even the millions which are poured out for military and naval purposes in the northern countries are only the small tribute which productive industry pays for protection; in the south they are the be-all and end-all of those who rely upon force to consummate their ends. Where a laborer can earn only a few cents a day, and has no inducement to work except precariously, he has little for paying tribute to the higher powers. To take from him much of what he has brings him close to the margin of starvation. Measured by the standards of the northern countries, the monetary acquisitions of a Castro or a Zelaya, which they have taken out of the country, are insignificant; but in the northern countries the evolution of eight centuries of civilization has given the assurance that, in spite of occasional wrongs or a heavy burden of taxation, there exist security of property, the right of uninterrupted labor and saving, and protection for life, liberty, and freedom of contract under the ægis of law. In the northern countries the great amounts taken by taxation are given back to the people in improved roads, deepened harbors, postal facilities, pure water supplies, systems of drainage, hospitals, schools, police, and sanitary protection, and even insurance against poverty in old age. In those southern countries which have submitted to tyrannies like that of Zelaya, roads go unimproved, harbors are closed by the silting of the river sands over the bars, railways fall out of repair, the post office and the telegraph languish under incompetent administration, and drainage and sanitary precautions are almost unknown.

It is not surprising that under governments like these national bankruptcy, the wreckage of currency systems, the violation of public faith, and shattered national credit have been the rule. In such a condition Nicaragua found herself when at last Zelaya surrendered his power. Many Americans probably rubbed their eyes with astonishment when they read the note addressed by Secretary Knox to the Nicaraguan Government on December 1, 1909, after the murder of the two Americans, Cannon and Groce, by Zelaya's soldiers. The murdered men were more or less adventurers who took the chances of their calling, but Zelaya's long reign of tyranny had at last come to be understood in its true colors at Washington and in the cabinets of Europe. Petty insults to the American legation had been increasing in frequency. The mail of the legation was opened and held back; telegrams were deliberately altered; fines were imposed upon men wearing buttons bearing the American flag; and upon the news of the election of President Taft in 1908, a party of Americans and Nicaraguans who met to celebrate the event was broken up and its chief Nicaraguan members were subjected to jail and torture. Minister Coolidge a few days later threw up his commission, declaring that it was "consistent with neither the dignity nor the interests of the United States to maintain a representative" in such a land, where the only rule was that of force.

Still the patient "mules" of the north—the pet name for Americans among their enemies in Central America—were silently submissive. But upon the organization of a strong revolutionary movement on the east coast, Secretary Knox felt that the time had come to aid the Nicaraguan people by at least refusing longer recognition of the tyrant. Sending his passports to Felipe Rodríguez, the Nicaraguan representative in Washington, he advised him that it was "a matter of common knowledge that under the régime of President Zelaya republican institutions have ceased in Nicaragua to exist except in name; that public opinion and the press have been throttled; and that prison has been the reward of any tendency to real patriotism." Upon receipt of news of this note Zelaya realized at last that his day was over. He knew that his few thousand ill-disciplined and poorly equipped native soldiers could make no stand against the jackies from American war ships if they landed at Corinto, and that their path to the capital was likely to be a prolonged ovation from a liberated people. Fearing assassination by his enemies, he took a special train at an obscure station outside Managua, slunk away to the seaport, and was there received by the officers of a Mexican gunboat, sent by his sympathetic fellow ruler who was so soon to follow him into political oblivion.

It was following these events that the United States felt justified in extending advice to the new Government of Nicaragua to enter upon a policy of financial and political rehabilitation. Ultimately this advice was accepted. Zelaya turned over the Presidency to a former friend, Dr. Madriz, but his government was short lived. Gen. Estrada succeeded to the Presidency, but an attempt on his part in May, 1911, to undermine the power of Gen. Mena, his minister of war, resulted in another change of government. Mena had command of the troops whose menacing machine guns looked down upon the city of Managua. In a moment when he was away from the barracks, President Estrada put him under arrest and directed the soldiers to lay down their arms and accept a new commander. The soldiers remained loyal to Mena, and upon this news Estrada followed the course of so many of his predecessors in seeking safety across the frontier. Gen. Mena, however, did not insist upon the Presidency. His friend, Adolfo Diaz, took the position and left Mena at his post as minister of war.

Señor Diaz is a young man, trained in mercantile enterprises at Bluefields, on the east coast, where he has imbibed American ideas of the value of order and business enterprise. Gen. Mena, of stature much above the ordinary in Nicaragua, bluff, sturdy, reticent, combines with many of the traditions of the soldier an insight into the real needs of his country, which has made him a resolute friend of the American loan. Upon his adherence to this attitude, in spite perhaps of some sacrifices of popularity and of personal following, and upon similar loyalty by the big business interests of Granada and Leon, rests in a large measure the immediate future of Nicaragua.

Even before the fall of Estrada the Government of Nicaragua had asked the United States to designate a competent specialist to investigate its financial affairs and arrange for a loan to extinguish its debts and to meet accumulating claims. The delicate mission of reconciling political jealousies fell upon Thomas C. Dawson, of long experience as an American diplomat in Latin-America, and

the study of the financial problem upon Mr. Ernest H. Wands, an expert of much experience in Latin-American affairs. The Government asked also that the currency standard should be lifted from the quicksand of paper which had been issued by all the Governments since 1893 and put upon a stable basis. Inevitably the arrangement suggested itself which has been so successful in San Domingo—that a loan should be made by American bankers to the Republic, secured by the direct collection of the customs. Such a loan has been offered by two well-known banking houses of New York. The total of the loan, if original plans are carried to completion, will be about \$15,000,000. Of this amount, several millions will go to extinguishing old obligations, both foreign and domestic, about \$1,500,000 to the establishment of a bank and the reform of the currency, and the remainder to building railways and developing the rich natural resources of this long-suffering country. Already the amount required for giving stability to the currency has been advanced, and Nicaragua will soon be on an effective gold basis.

At present a single railroad, about 115 miles in length, runs from Corinto, on the coast, to Granada, close by the Lake of Nicaragua. The coffee plantations in the higher districts, the gold mines of the east coast, the rubber forests, the banana plantations, and the great expanses of hardwoods are practically untapped by railroad communication or even by good roads. With stable government and a sound currency foreign capital is likely to flow into Nicaragua in the same manner that it has flowed into Costa Rica under the encouragement of the United Fruit Co. and other American and European enterprises. Great is the contrast between economic and social conditions in Costa Rica with those of Nicaragua, her northern neighbor. In Costa Rica good roads, the improvement of harbors, reasonably adequate banking facilities, the steady employment of labor, the continuous sovereignty of law and order, and the contentment of the people are the fruits of good government and the encouragement of foreign enterprise.

In Nicaragua, after nearly a generation of misgovernment, protection against enemies of peace at home can come only under the advice and support of America. Otherwise, however good a single government may be, it must maintain itself by force and is likely to be at any moment the victim of a greater force, promising greater rewards in spoliation and dishonest opportunity to its followers. It is the cry of those who love peace, order, and safety for property, liberty, and life which rises loudest for the assistance and support of the United States in maintaining good government. To the great Republic whose power is symbolized by the Stars and Stripes they utter in effect the prayer of Horace to Augustus, after he had brought peace to the blood-weary Roman world:

"When you are here the ox plods up and down the fields in safety; Ceres and bounteous blessing cheer our farms; our sailors speed o'er seas that know no fear of pirates; credit is unimpaired; no foul adulteries stain the home; punishment follows hard on crime. * * * Each man closes a day of peace on his native hills, trains his vines to the widowed trees, and home returning, light of heart, quaffs his wine and ends the feast with blessings on thee as a god indeed."

CHARLES A. CONANT.

Mr. CONANT. There is one point I should like to bring out if the committee will permit me. That is, that Mr. Harrison and myself, under the authority of the bankers, did all we could to encourage the restoration of sane finance and management of the budget, and to promote economies. We recommended a great many, and Mr. Harrison went into this more particularly than I did because he had had experience in British India. But in the supplementary loan contract we specified that they should devote surplus moneys when they had them only to certain specified purposes, and should keep down the budgets. It was not in our power, however, to enforce those requirements physically, and when it came to embodying them in the contract the president said he did not object to them at all, but he thought it was a little derogatory to the dignity of the legislative body to put them in legislative acts. But if we would eliminate that from the contracts he would write a letter that he would con-

form to those conditions. And it might be of interest if I would put in the letter I wrote to him. It reads:

MANAGUA, March 22, 1912.

YOUR EXCELLENCY: According to the preliminary agreement heretofore made between the Republic of Nicaragua and the bankers, Messrs. Brown Bros. & Co. and J. & W. Seligman & Co., there were certain conditions which were (and are) not included in the supplementary loan bill recently approved by the Nicaraguan Congress, but which conditions were to constitute a part of the supplementary loan contract and were to be set forth in a document to the effect that the Government would obligate itself to compliance with the same. The said conditions are as follows:

1. That the Government of Nicaragua shall make a saving of approximately 5,500,000 pesos in its budget for the year 1912, as presented to Mr. Harrison and ourselves.

2. That the Government shall not use any of its current revenue nor any of the funds advanced by the bankers to it, for the payment of any expenditures other than those set forth in said budget.

3. That the Government shall provide for the payment of its gold liabilities to local bankers from resources derived from moneys to be received from the payments on account of the Dietrich concessions or otherwise—that is to say, the funds to be advanced by the bankers shall not be used for this purpose.

The Dietrich concession proved to be illusory. The bills of exchange drawn were protested and dishonored in New York. It was a fake promotion plan more or less.

In order that the supplementary loan contract may become effective as soon as possible, I would thank Your Excellency to transmit to me on behalf of your Government the guaranty referred to above, the same to be addressed to Messrs. Brown Bros. & Co. and J. & W. Seligman & Co.

In conformity with these conditions, we would be pleased if you would forward to the representative of the bankers in Managua as promptly as possible after the end of each month a classified statement of the receipts and disbursements of the treasury for the said month.

With the expressions of my highest esteem, I have the honor to remain,

Yours, very respectfully,

(Signed)

CHARLES A. CONANT,
J. R. WHITAKER.

HIS EXCELLENCY DON ADOLFO DIAZ,
President of the Republic, Managua, Nicaragua.

I have not the President's reply to that, but there was a reply, which the bankers undoubtedly have, and I simply present that to show that we did what we could to encourage and promote the wise handling of their budget, that it should be handled economically.

Senator SMITH of Michigan. This was written after you returned home?

MR. CONANT. No; just before I left while this contract was still pending, after the contract had been signed, but the President had assured us he would give these promises. This is dated March 22.

Senator POMERENE. Was there anything further you cared to say in this matter?

MR. CONANT. Not the letter; but I want to say generally that Mr. Harrison and I did all we could, with the support of the bankers, to lead them to bring their budgets into shape and to be as economical as possible, and to put the country upon a sound financial basis. The money embodied in these contracts was largely for monetary reform exclusively, but the bankers granted, at the suggestion of Mr. Harrison and myself, this \$30,000 for eight and one-half months. The reason eight and one-half months was fixed was the anticipation that the Senate would act on the pending treaty at that time.

Senator SMITH of Michigan. When you speak of the budget, do you refer to the salaries of the Government officials as well as appropriations for all purposes?

Mr. CONANT. Yes.

Senator SWANSON. The entire disbursement of the Government?

Mr. CONANT. Yes.

Senator SWANSON. As a matter of fact, the Nicaraguans have very little to say about the number of employees or their salaries, have they, since the bankers took hold?

Mr. CONANT. I could not answer that question either affirmatively or negatively unless I know what you implied by it.

Senator SWANSON. You had spoken of Mr. Harrison several times. Brown Bros. and Seligman have a London office, have they not?

Mr. CONANT. Brown Bros. have, and Seligman.

Senator SWANSON. Is Mr. Harrison identified with their London office?

Mr. CONANT. Not to my knowledge. He was simply picked out as a man like myself who had some experience in similar matters.

Senator WILLIAMS. He had experience in India and you in the Philippines?

Mr. CONANT. Yes; he has been in British India for 25 years, part of the time as head of the financial department.

Senator POMERENE. You were in Nicaragua, as you say, about three months. Were you able to get in touch with public sentiment sufficiently to enable you to give us an opinion as to the extent of the support that the Diaz administration had in the country?

Mr. CONANT. Well, that is a difficult question to answer. I should be glad to answer you to the best of my ability.

Senator POMERENE. I know that it is a difficult question.

Mr. CONANT. I was not sufficiently in touch with public sentiment—I did not knock about the towns as I would if I were a candidate for Congress in this country. As far as meeting the people was concerned I did meet a majority of the prominent ones in that community. Of course it is a small community. There are only three towns of any importance, Leon, Managua, and Granada. We were not in Leon, but visited Granada. We were most of the time in Managua. We also made side trips up to the sugar plantation and this plantation of Mr. Wheelock, where we asked him about the launch. The general feeling among the people in Nicaragua was that they were very solicitous to have the United States protect the existing status; that is, to give some assurance of order and stability. In fact, I was perfectly amazed when I went up to Granada on Christmas eve. They gave us a fancy dress ball, in which there were beautiful costumes, with the houses beautifully decorated. They said it was the first they had given since early in Zalaya's régime, since he had dispersed them, through the means of police and soldiers, putting revolvers at the women's heads and telling them to go home. So it was a sort of celebration of the liberation. On the day following, which was Sunday, Christmas evening, representative citizens of Granada got around us. Most of them spoke English or French very well. Some of them said just what was needed was what was in the pending treaty, that they wished we would extend the Platt amendment to Nicaragua, so that they could have the assurance that they

would not be put into exile—that they would be glad to see the American flag raised. I thought at first it was just buncombe.

Senator POMERENE. Were these Nicaraguans or foreigners?

Mr. CONANT. Nicaraguans.

Senator POMERENE. Where these people with whom you were in touch there members of the Conservative Party, which is the Diaz party, as I understand, or were they of the Liberal Party?

Mr. CONANT. So far as I know they were mostly members of the Conservative Party, because you will find in those countries that a minority party does not make itself very conspicuous. You know every member of the Diaz government was in exile during Zelaya's régime, and while I do not know that it is necessary for Zelaya's followers to fear Diaz's administration, most of them have stayed away. The house occupied by the American legation in Managua was a showy house, without very much back of it, built by a man named Gamez. It was still owned by him and the rent paid to some agent of his, but people said generally—it was a byword there—it was built with the sweat and blood of the Nicaraguan people, because they believed there had been so much graft exacted.

Senator SMITH of Michigan. You are not speaking of the Campo de Marte?

Mr. CONANT. No; not the Campo de Marte. I do not know how that was built.

Senator SWANSON. Is there anything there that would prevent a peaceful revolution if they desired it to change the Government?

Mr. CONANT. That is a hard question to answer, because the people are so illy qualified for orderly self-government. It must be backed up by force. No matter how good a man Zelaya or Diaz, if they stayed down in the executive mansion and did not have troops in the Campo de Marte or did not hold troops in the barracks in Grenada and Leon they might as well shut up shop.

Senator SWANSON. I understand you have got to have force to keep a revolutionary force from seizing the Government, but does not the Government provide for an orderly method for making of officers?

Mr. CONANT. There is a constitution. I do not know when the next election occurs. I think President Diaz was elected at a regular election a year ago.

Senator SMITH of Michigan. Yes; October, 1913.

I have a report from Col. Pendleton, who was in charge of the marines down there, in which he gives it as his opinion, according to the Navy Department, that fully 70 per cent of the people down there are allied with the party not now in power.

Senator POMERENE. Not now in power?

Senator SMITH of Michigan. I have his entire report.

Senator POMERENE. What is the date of the report?

Senator SHIVELY. In what capacity did he report?

Senator SMITH of Michigan. December 7, 1912. Col. Joseph H. Pendleton, commanding the first provisional regiment of marines.

Senator SHIVELY. To whom does he report?

Senator SMITH of Michigan. To the Navy Department.

Senator SHIVELY. Is the document you have here a part of that report?

Senator SMITH of Michigan. Yes; showing the activities of our marines and soldiers.

The CHAIRMAN. The majority in Nicaragua is composed of what kind of human beings?

Mr. CONANT. They are 90 per cent Indians, according to calculations. Sometimes we hear they are disorderly, because they are Spanish, but it is rather because they are not Spanish. The two white men's countries—Costa Rica and Salvador—are extremely well governed. Costa Rica is nearly all white. Salvador, with 40 per cent white men, is also well governed. The constitutional guaranties receive some respect, but in the other three countries—Guatemala, Honduras, and Nicaragua—you have a population which is practically 90 per cent Indian.

They are not capable of self-government in our sense of the word. They do not know anything about it.

The CHAIRMAN. How do they live?

Mr. CONANT. On any old thing that they pick up. Some have little shacks and small plantations, and about the cities they live by personal service and by loafing around. Of course, the country is warm, and they do not need much covering. They do not need much shelter, and they do not need much clothing. The conditions are absolutely different from here.

The CHAIRMAN. You say the population is composed of about 90 per cent of that class of people?

Mr. CONANT. Pretty nearly.

I think the Indian has a greater capacity for development than the Negro. Give the Indian a chance, and he makes more progress. The thing is that they have had no chance in these countries. They have been pitchforked from one revolutionary army into another. They do not care anything about revolutions. But the stories that we heard were that Zelaya would send a file of soldiers down to a sugar plantation and tell them that they had got to enlist, and if they did not they would be killed. Therefore, they would enlist.

Senator SMITH of Michigan. Here is a part of the report of our naval officer in command at one of the ports down there. It reads:

The general desired to know whether we were getting along all right, to which the colonel replied that we were. Did we need anything? Nothing particular, but would like to be assured that the railroad would be kept open.

The political situation was then discussed, with the idea of obtaining the views of those people. The following statements were elicited: Adolpho Diaz is now President of Nicaragua, with Camorro as minister of war. Diaz is the successor of Estrada, who advocated the present Congress of 46 delegates, who are entirely conservative, and most of the members were elected by fraud or installed by force. The tenure of this government was secured and held by force, etc.

Senator SWANSON. That is not what he says. That is the statement of somebody else.

Senator SMITH of Michigan. What is that?

Senator SWANSON. Is that the statement of Col. Pendleton?

The CHAIRMAN. Who made that statement?

Senator SMITH of Michigan. That statement, I think, was made by Col. Long.

The CHAIRMAN. Long?

Senator SMITH of Michigan. Yes, sir; that is the way it was given to me.

The CHAIRMAN. Do you mean that that officer states that these people were elected by fraud?

Senator SMITH of Michigan. This is a report made to the Navy Department.

Senator SWANSON. As I understand it, that is not his statement, but a statement that somebody made to him.

Senator SMITH of Michigan. Those were observations.

Senator SHIVELY. Was that a report made at the request of the Navy Department?

Senator SMITH of Michigan. It was a report to the Navy Department. It shows the extent of our military occupation, the battles in which they engaged, and the condition from day to day of the men, giving the dates, where they were and what they did.

Senator SHIVELY. You spoke of the men. Do you mean our men, the men of the Navy?

Senator SMITH of Michigan. Our marines. That is the report made in detail.

Senator SHIVELY. Have you any objection to that going into the record as a whole?

Senator SMITH of Michigan. I think it ought to go in, but I think it would be better to have the chairman ask the department for it and get it under his approval.

Senator SHIVELY. I suggest something of that kind, because we are incorporating extracts from it.

The CHAIRMAN. Mr. Conant, is there anything more that you could say that you think ought to be said?

Mr. CONANT. If the committee will bear with me, I will say just a thing about this political situation. Such things as have been read here, you can hear from all these people about the other side. It is almost impossible to gauge public opinion. In the first place, you have to understand if there is any public opinion outside of the few educated men, the merchants and the white men. In the second place, there are so many personal jealousies. When our marines went up there it was to suppress an insurrection by Gen. Mena, who had been acting with the Conservative Party, but who felt he had not been treated right. If the Liberals supported Mena—which I do not think they did—it was only as a dernier resort. It was not because they loved Mena. This very assembly which was there when I was there—

Senator SMITH of Michigan. This is 1912?

Mr. CONANT. That was a later one, elected after the Mena revolution was suppressed. The assembly when I was there was largely in Mena's hands. Gen. Chamorro had not more than 4 or 5 friends out of 40 members. The rest would do practically what Mena told them. But after the revolution I believe they elected a new assembly, and those remarks, I assume, refer to that.

Senator SHIVELY. From your experience there and knowledge of the situation, what is your judgment of the effect of the ratification of this treaty?

Mr. CONANT. It would save Nicaragua from anarchy and bloodshed and the constant series of revolutions. It is hopeless to have stability there, and whether President Diaz is a good President or a bad President, if he is subject to constant revolution you can not get

capital there, and you can not give any encouragement to the people to be industrious. The country can not take a step forward, and the monetary system and everything will collapse.

Senator SWANSON. Is there any chance of establishing stability except by some outside influence?

Mr. CONANT. Very little, unless you have a resolute dictator like Zelaya, or the representative of another State that I will not mention.

Only by force, actual or feared, can you prevent constant personal jealousies leading to revolution.

Senator POMERENE. Would this Platt amendment be seized upon by the Liberal Party as a cause for another revolution if it were incorporated in this treaty?

Mr. CONANT. If they felt they were strong enough they would seize on anything. So would any other revolutionary leader that thought he had a show. Those countries have gotten in such condition that only some strong force that is recognized to be independent and unprejudiced in a measure, and capable of enforcing order under all circumstances, can give them any hope of seeing the light. If these revolutions led to progress, as they did with us in 1776 and in France, we might permit one or two of them to go on. But they do not lead to progress. It is only a question between one avaricious dictator and another.

Senator POMERENE. Is not that equally true of Guatemala and Honduras?

Mr. CONANT. We are on friendly relations with those sovereignties, are we not? The condition of the people is just the same. The President of Guatemala—there is a difference of opinion—

Senator POMERENE. We are on friendly relations with Nicaragua?

Mr. CONANT. Yes.

Senator SHIVELY. I understand that the distinction you make there is that the latter country you mention has a larger white element?

Mr. CONANT. No; not in Guatemala. In Costa Rica and Salvador you have an orderly white man's government, but in Honduras and Guatemala you have 90 per cent Indians. Estrada Cabrera has been President of Guatemala since 1898, and has maintained order, but has done it, his enemies say, at a great sacrifice of constitutional guaranties, and they make such charges as you usually hear against Latin-American dictators. The trouble with these countries is that a little graft, what with us would amount to nothing—if a man here took two or three million and went to Paris—if done in New York would not make any difference, but in a country of 600,000 people, where the average productive capacity of the individual is perhaps \$50 a year, that means impoverishment for them. That single fact in itself means a deterrent to capital and to industry.

The CHAIRMAN. I have a communication from the State Department in relation to the depth of water in Fonseca Bay which I will ask to have inserted in the record.

(The letter and accompanying paper is as follows:)

DEPARTMENT OF STATE,
Washington, June 26, 1914.

HON. WILLIAM J. STONE,
Chairman Foreign Relations Committee,
United States Senate.

MY DEAR MR. STONE: In compliance with your suggestion, I have secured and am inclosing a memorandum made by Capt. Washington, of the Hydro-

graphic Office, Navy Department, referring to the depth of water in Fonseca Bay near the Nicaraguan coast.

Yours, very truly,

W. J. BRYAN.

HYDROGRAPHIC OFFICE,
Washington, D. C., June 23, 1914.

MEMORANDUM FOR THE SECRETARY OF STATE.

1. In compliance with your request, the following memorandum is forwarded relative to the approaches to and anchorage in the Gulf of Fonseca, Nicaragua.

2. The landmarks for entering the Gulf of Fonseca are the volcanoes of Conchagua and Coseguina; which plainly mark the entrance on the north and west sides of the bay. Between these two points the water is deep, varying from about 36 feet to a maximum of 125 feet, with no dangers.

3. Approaching the entrance to the gulf from the southward, the shore is steep-to, and deep-draft vessels can go close in without danger, the water varying from about 30 feet up to 100 feet or more. After rounding the north-west point (Coseguina Point) the deep water can be carried in behind Money Penny Point, where ample anchorage can be found varying in depth from about 80 feet down to shoal water. From Money Penny Point for a distance of about 5 miles east the depth varies from 75 down to 50 feet, and from thence east a distance of 3 miles more varies from 50 to 30 feet. All of this area, extending a space about 7 miles east and west and more than 3 miles north and south, affords excellent anchorage, well protected from the sea. Farther eastward an area of about 4 by 2 miles, inclosing a depth from 30 to 24 feet, is also available for anchorage for small craft, amply protected from the sea.

4. The anchorage space north of Coseguina Volcano, and east of Money Penny Point, affords a total anchorage area of about 9 by 4 miles (9 miles long and 4 miles wide), all of which is completely protected from storms or bad weather from the Pacific.

(Thereupon, at 12 o'clock m., the committee adjourned until Monday, June 29, 1914, at 10 o'clock a. m.)

Bp. 520000 to 600000

P 141 - 15 -

nicotinic solvent - 143

8 mg class - 147

necessity of names - 148

Popularity of drug - 163

CONFIDENTIAL

Heller - Present

HEARING

BEFORE THE

COMMITTEE ON FOREIGN RELATIONS UNITED STATES SENATE

SIXTY-THIRD CONGRESS
SECOND SESSION

ON

CONVENTION BETWEEN THE UNITED STATES AND NICARAGUA

PART 6

Printed for the use of the Committee on Foreign Relations



WASHINGTON
GOVERNMENT PRINTING OFFICE
1914

COMMITTEE ON FOREIGN RELATIONS.

WILLIAM J. STONE, Missouri, *Chairman.*

BENJAMIN F. SHIVELY, Indiana.

JAMES P. CLARKE, Arkansas.

GILBERT M. HITCHCOCK, Nebraska.

JAMES A. O'GORMAN, New York.

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W. R. HOLLISTER, *Clerk.*

CONVENTION BETWEEN THE UNITED STATES AND NICARAGUA.

MONDAY, JUNE 29, 1914.

COMMITTEE ON FOREIGN RELATIONS,
UNITED STATES SENATE,
Washington, D. C.

The committee met at 10 o'clock a. m., pursuant to adjournment.

Present: Senators Stone (chairman), Shively, Hitchcock, Williams, Pomerene, Smith of Arizona, Saulsbury, Smith of Michigan, Root, and McCumber; also the Hon. William Jennings Bryan, Secretary of State; Severo Mallet-Prevost, Esq.; and Hugo Kohlmann, attorney.

The CHAIRMAN. Which of you gentlemen desire to be heard first?

Senator SMITH of Michigan. Mr. Chairman, Mr. Mallet-Prevost wants to get away, and I suppose it would be a courtesy to let him proceed now.

Mr. MALLET-PREVOST. I am very much obliged to you, Senator, for so promptly and courteously answering my telegram allowing me to appear at this time.

The CHAIRMAN. The committee is very much obliged to you, and we desire to do anything we can to accommodate you.

TESTIMONY OF SEVERO MALLET-PREVOST, NO. 30 BROAD STREET, NEW YORK CITY.

Severo Mallet-Prevost, having been first duly sworn by the chairman, testified as follows:

The CHAIRMAN. Please state your name, residence, and business.

Mr. MALLET-PREVOST. Severo Mallet-Prevost; I reside at 969 Park Avenue, New York City; I am a member of the bar of that State, and have my office at No. 30 Broad Street.

The CHAIRMAN. You have had something to do with Nicaraguan affairs, have you?

Mr. MALLET-PREVOST. I have.

The CHAIRMAN. As far as you can, we would be glad if you would state what your connection with Nicaraguan affairs has been and what your information or knowledge is as to the conditions in that country.

Mr. MALLET-PREVOST. I want to say at the outset of my testimony, gentlemen, that although I have been acting in this matter as counsel for Brown Bros. & Co. and for J. & W. Seligman & Co., those gentlemen desire me to make a very full and complete statement of everything that has transpired, and they have released me from any profes-

sional engagements which might make it difficult for me to testify. In other words, I am prepared to give you full information and to answer any questions that may be put to me.

For the convenience of the committee and with a view to expediting this matter, I venture to suggest that before I am interrogated on any particular phases of the transactions that I be permitted to give a general outline from the beginning of what has taken place up to this time.

The CHAIRMAN. That will be satisfactory.

Mr. MALLET-PREVOST. It was toward the close of 1910 that I was retained by Brown Bros. & Co. in connection with negotiations which had been entered into by them with a company known as the George D. Emery Co. to purchase the business and assets of that company. The George D. Emery Co. was a Maine corporation, which was engaged in business in Nicaragua. It owned extensive lands and extensive timber rights, and it also owned some real property in the State of Massachusetts, and it owned an interest in a claim against Nicaragua which had been reduced to the form of a protocol between the United States and Nicaragua. I do not recall now out of what circumstances that claim arose, but it was a matter that was pending diplomatically between the two countries for some time, and finally this protocol was negotiated by virtue of which Nicaragua received certain benefits and the return of certain concessions, or certain properties, was relieved of certain liabilities and agreed to pay to the United States the sum of \$600,000 for the benefit of the Emery Co., the payments to be made at specific dates. The Emery Co. was controlled at that time by a man by the name of Segar who lived in London. He was anxious to retire from business and he offered to sell the business out to Brown Bros. They did not care to buy it for themselves, but they interested two gentlemen in New York by the name of Williams, who were lumber merchants, and they were brought into the negotiations. The Williamses were willing to buy the lumber business as a going business, but they did not care to have anything to do with what they called the dead assets of the company, which were the claim against Nicaragua under the protocol and the real estate in Massachusetts. These had no direct relation to the business of the company, and so in order to put that deal through Brown Bros. & Co. bought the real estate in Massachusetts and the company's claim under the Nicaragua protocol, and the Williamses bought the rest of the company.

It was in connection with that business that I came to Washington a number of times toward the close of 1910, and in January of 1911, among other things, for the purpose of investigating the records of the State Department with reference to that protocol, and the matter was put through some time in January, 1911.

During one or more of those visits I ascertained that a Nicaraguan loan was in contemplation, and that one of the purposes of that loan was to provide money with which to pay off this claim of the United States. It occurred to me that that was business that might interest my clients and I therefore brought it to their attention with the result that on February 2, 1911, my clients wrote a letter to Secretary Knox saying that the matter had been brought to their attention and that they would like to have an opportunity to become interested in the matter.

Senator SMITH of Michigan. You say your "clients." I would like to have you define that more particularly.

Mr. MALLET-PREVOST. Brown Bros. & Co. There is nothing special in this letter, and I shall not take the time of the committee to read it.

The CHAIRMAN. You can leave it with the stenographer.

Senator WILLIAMS. I believe I would like to have it read.

Mr. MALLET-PREVOST (reading):

(G)

FEBRUARY 2, 1911.

Hon. PHILANDER C. KNOX.

Secretary of State, Washington, D. C.

SIR: We understand that the Government of Nicaragua is considering the advisability of obtaining a new loan for the purpose of refunding her present indebtedness and of providing for other governmental needs. We also understand that, in order to secure such loan upon advantageous terms, the Government of Nicaragua is desirous of enlisting the good offices of our own Government and of entering into engagements with it which shall furnish a satisfactory basis for such security as may be required. Should this information be substantially correct, we beg to say that, as bankers, we shall be glad to have the opportunity of negotiating for such a loan.

Apart from our general interest in a matter of this kind, we beg to add that we are interested in the George D. Emery Co.'s claim against Nicaragua, under the protocol of September 18, 1909, and that we have, therefore, a peculiar interest in the readjustment of that country's finances.

We shall, therefore, greatly appreciate it if you will furnish us with such information regarding the matter as may be available, and if you will at the same time do what may be necessary to place us in position to negotiate with the proper parties for the loan referred to.

We have the honor to be, very respectfully, yours,

BROWN BROS. & Co.

The CHAIRMAN. That letter is to whom?

Mr. MALLET-PREVOST. That is written by the bankers, Brown Bros. & Co., to the Secretary of State. That letter was acknowledged a few days later. I have acknowledgments here in which the Secretary stated—

Senator SMITH of Michigan. Please give the date of that.

Mr. MALLET-PREVOST. February 6, 1911. The acknowledgment is as follows:

Copy.]

(C)

DEPARTMENT OF STATE,
Washington, February 6, 1911.

Messrs. BROWN BROTHERS & COMPANY,

59 Wall Street, New York City.

GENTLEMEN: In answer to your letter of the 2d instant in relation to the loan which, it is said, the Government of Nicaragua desires to obtain for the purpose of refunding the present indebtedness of that country and of providing for other governmental needs, you are informed that the department will be glad to use its efforts to the end that you shall have an equal opportunity with other American bankers to bid for any loan that the Nicaragua Government may desire to secure.

I am, gentlemen, your obedient servant,

(Sgd)

P. KNOX.

We understood at that time that a treaty between the United States and Nicaragua was in contemplation.

The CHAIRMAN. I think, if you gentlemen will excuse me, I will ask these gentlemen to step in the other room, and we will call them later.

(Mr. Wands thereupon retired from the room.)

Mr. MALLET-PREVOST. I will state that the only reason I asked Mr. Kohlmann, one of my partners, to be here was because he might help me a little with these papers in order to facilitate the matter. He is not a witness, and I suppose there is no objection to his remaining.

The CHAIRMAN. Very well.

Mr. MALLET-PREVOST. We understood, first, that a convention was being negotiated with Nicaragua similar to the convention which had been negotiated with Honduras, and that a loan, if it was made, would be in connection with such a convention. I was also informed at that time that Nicaragua had requested the State Department to suggest the name of some one who could act as financial adviser in the matter, and that the State Department had recommended Mr. Ernest H. Wands, who was here a moment ago. Mr. Wands had gone to Nicaragua at the time I first learned of the matter.

I had a number of conferences here in Washington with representatives of the State Department, principally with Mr. Doyle, who was the head of the Latin American Bureau, and also with Dr. Castrillo, who was the Nicaraguan minister here at that time, preparing the way for my clients to come into the negotiations. Dr. Castrillo was very anxious that the bankers should make a temporary loan, and gave me to understand that anyone who did that would have a preference with reference to the larger loan that was in contemplation.

My clients were not disposed to deal with the subject in that way, and I said so finally to Dr. Castrillo and told him if he could deal on those terms with anyone else I did not want in any way to ask him to wait for us. I do not know what he did, but evidently he did not succeed, and toward the latter part of March Mr. Wands returned from Nicaragua. Neither my clients nor I had ever met Mr. Wands; in fact, I never heard of him until I heard his name in this connection.

Secretary BRYAN. Did you have anything to do with the Ethelburga matter at all?

Mr. MALLET-PREVOST. Yes; I am coming to that a little later. I want to take up these things in their chronological order so that I will make it clearer.

Mr. Wands came back toward the end of March. He first called on the bankers in New York—I mean Brown Bros. I was brought into the matter at the second conference, and we had quite a number of conferences with him, the general purpose of which was to get information as to the conditions in Nicaragua, as to its finances, as to its income and budget, and as to the general conditions there. The information was very unsatisfactory, because, as to records, there simply were no records. We almost had to guess at things. So far as we could ascertain, the customs had been producing about \$900,000 a year, but the whole thing was very uncertain. We also discussed as to what should be done with the proceeds of the loan.

Senator SMITH of Michigan. You mean when you said "had been"—

Mr. MALLET-PREVOST. Up to that time.

Senator SMITH of Michigan. That covers how much of a term?

Mr. MALLET-PREVOST. Always back. We could get nothing.
 Senator HITCHCOCK. 1911?

Mr. MALLET-PREVOST. 1911. What was contemplated was a loan or bond issue of \$15,000,000. The intention was to issue immediately \$12,000,000 of those bonds and to reserve \$3,000,000 for future issue. The purposes as they were discussed with Mr. Wands were to provide money, in the first place, for dealing with the Ethelburga loan, which I shall take up in detail later; in the second place, providing money to pay external creditors, among which was the amount owing on this Emery claim; in the third place, to take care of a large number of liquidated internal debts; in the fourth place, to provide payment for such judgments as might be rendered by the mixed claims commission, which had been established; in the next place, to provide a fund for introducing a new currency system and establishing a national bank in Nacaragua; in the next place, to provide money for the building of a railroad to connect the Atlantic coast with the Pacific coast, or with the Pacific coast railroad system; and I think that was all, excepting for some general minor purposes.

If I may be allowed to refer to some notes that I have prepared, I think it will help me. I have the draft of the letter here which I prepared on May 31, 1911. It is a draft which was never used, but which is useful at this time as showing the state of the negotiations at that date. It states that the loan is to be for \$15,000,000; that \$12,000,000 are to be issued; that \$3,000,000 are to be reserved; and that these various funds are to be provided for. I think I have given you the substance of it.

The CHAIRMAN. Who prepared that?

Mr. MALLET-PREVOST. I did at that time.

The CHAIRMAN. For what purpose did you prepare it?

Mr. MALLET-PREVOST. We were considering making a bid for the loan, which we were negotiating with Mr. Wands as financial agent of Nicaragua.

This particular letter was not used; it was modified in a number of respects, and finally, on June 21, 1911, a month later, we did make a bid which is contained in this letter.

Senator SMITH of Michigan. Do you not think that this other letter ought to go into the record?

Mr. MALLET-PREVOST. I will give you all of these; I will not take the time of the committee to read them now. I have collected many of these. They are the only copies that I have in my office, and with the permission of the committee I shall take these back with me and have a full copy made of everything and send it to you. I would not like to part with all of these, as they are my own records. But, as I state, I will have a full copy made of everything I have brought over here for you, if that is satisfactory, Mr. Chairman.

The CHAIRMAN. It is satisfactory to me if it is satisfactory to the other members of the committee.

Senator SMITH of Michigan. These letters that you have here are copies, as I understand. So these will be left with us?

Mr. MALLET-PREVOST. I have no other copies. I will make copies of these.

(The draft of the "letter or bid" of May 31, 1911, is as follows:)

Dft. May 31/11]

[9084-B2 N G

LETTER OR BID.

DEAR SIR: We understand from you that in order to secure a loan in this country the Republic of Nicaragua proposes to enter into a convention with the United States similar to the convention dated January 10, 1911, between the United States and Honduras.

We understand also that the terms of the proposed loan are to be substantially as follows:

The loan is to be for \$15,000,000 to be represented by an issue of bonds, of which \$12,000,000, par value, are to be sold at this time and the remaining \$3,000,000 are to be held for future sales.

The proceeds of the sale of said \$12,000,000 of bonds, together with the \$3,000,000 of bonds reserved as aforesaid, are to be distributed into seven different funds and are to be applied exclusively for certain specific purposes. The seven funds referred to and the purposes of each are, briefly, as follows:

(1) The "Ethelburga fund," which shall consist of \$4,100,000 in cash and which shall be used for the purchase or redemption of bonds which were issued by the Government of Nicaragua pursuant to a contract dated January 19, 1909.

(2) The "external debt fund," which shall consist of \$750,000 in cash and which shall be applied to the adjustment and settlement of certain debts owing to various foreigners.

(3) The "internal debt fund," which shall consist of \$1,169,000 and which shall be applied to the adjustment and settlement *pro rata* of various internal debts of the Republic not otherwise provided for;

(4) The "mixed claims commission fund," which shall consist of \$—— in cash and \$—— in bonds, and which shall be applied *pro rata* to the payment of such awards as may be made by the mixed claims commission recently established;

(5) The "banking and currency fund," which shall consist of \$1,500,000 in cash and which shall be applied to establish a bank and to introduce and maintain a stable currency system;

(6) The "railway fund," which shall consist of \$500,000 in cash and \$—— in bonds, and which shall be applied to the construction of a new railroad from some point on or near the Atlantic coast to the interior; and

(7) A "general fund," which shall consist of the cash balance available from the proceeds of the sale of the \$12,000,000 of bonds and of \$—— of bonds; this fund is to be used for certain purposes to be agreed upon between the Republic and the purchasers of the original bonds, whom we shall hereinafter refer to as the "bankers."

The bonds which are to be thus issued and sold are to bear 5 per cent interest, are to mature in —— years; are to be retired annually through the operation of a yearly sinking fund, at the rate of 102½ and accrued interest, or by purchase in the open market at a lower figure; are to be redeemable at any time, at the option of the Republic, at 102½; are to be of such denominations as the bankers may determine; are to be payable in United States gold coin or its equivalent in various foreign currencies; are to be of a form satisfactory to the bankers; are to be payable either to bearer or to registered holders; are to be listed on the principal stock exchange in New York and in Europe; are to be exempt from all stamp and other taxes in Nicaragua; are to be secured, first, by the proposed convention between the United States and Nicaragua; second, by all customs receivable by Nicaragua, whether on exports or imports; third, by the present railroad from Corinto to Granada; and, fourth, by the new railroad which it is proposed to construct.

In order that the security for the bonds shall be effective, the customs are to be collected by a collector general of customs to be appointed as shall be provided in the convention above referred to.

The fiscal agent and the trustee of the loan are to be selected by agreement between the Republic and the bankers.

We understand that, in addition to purchasing the \$12,000,000 of bonds to be first offered, the Republic of Nicaragua desires that the bankers shall obligate themselves to purchase all or such part of the remaining \$3,000,000 of bonds as the Republic may desire to sell during a period of five years. This obligation on the part of the bankers, however, is to be limited as follows:

1. Except with the approval of the bankers, no further bonds shall be sold or offered for sale within two years after the date of the sale and delivery of the \$12,000,000 of bonds referred to.

2. Any sales which may be made after the expiration of said two years shall be so made only through the bankers.

3. If at the time of any such further sales the market price of the bonds should be less than the purchase price of the first \$12,000,000 of bonds, the bankers shall purchase the same at such original price, provided, however, that no single offering shall be of less than \$500,000, par value, of bonds; that at least six months shall elapse between any two such offerings; that in such case the bankers shall not be obligated to purchase more bonds than may be sufficient, at the price mentioned, to furnish whatever cash may at that time, in the opinion of the bankers, be required for the construction of the new railroad and for certain other purposes to be specified; and, finally, that in the case last mentioned the bankers may, instead of buying the additional bonds, loan the Republic the amounts in cash which it may require for the purposes aforesaid, such loans to be secured by the bonds themselves to an amount representing at par twice the amount of such loans.

We understand that, as a partial compensation for these obligations to be assumed by the bankers, they are to have the privilege of purchasing such additional bonds, when offered by the Republic, at three per centum (3%) below their then market price, provided, of course, that the price so to be paid shall in no case be less than the original purchase price of the \$12,000,000 of bonds before mentioned.

Upon the general lines above set forth and with the understanding that the terms referred to shall be embodied in formal contracts which shall in all respects be satisfactory to us, we hereby offer to purchase the \$12,000,000 of bonds to be offered as aforesaid for the net sum of \$——; provided, however,

(1) That the Republic shall pay, for its own account, the cost of printing any temporary bonds which may be issued; the cost of engraving and printing the definitive bonds; all stamp or other taxes and charge which may be payable on the new bonds or upon the issue thereof in Nicaragua, in the United States, or in Europe; all expenses which may be incurred in connection with the listing of the bonds on the various stock exchanges; all expenses in connection with the service of the loan; and the compensation of the trustee and of the fiscal agent for all services to be rendered by them in connection with the original issue.

(2) That we shall be given a reasonable option to establish a bank in Nicaragua, which bank shall act as the fiscal agent of the Government in that Republic and as the depository of all Government funds, and which shall be granted a charter by the Republic in all respects satisfactory to us. The authorized capital of the bank shall be \$5,000,000, of which there shall be paid in at first the sum of \$500,000, 51% thereof by the bankers and the remaining 49% thereof by the Republic. Stock of the bank shall be issued to the bankers and to the Republic in the proportion of their contributions as aforesaid, and any further issues of stock shall be subscribed and paid for in the same manner; 51% of the stock of the bank shall control; the bankers shall have a preferential right to purchase the stock of the bank, which may at any time be owned by the Republic in case the Republic shall at any time desire to sell the same; the new currency system proposed to be introduced in Nicaragua shall be put into effect through the instrumentality of the bank.

(3) That we shall have a reasonable option to construct and operate the new railroad, which we may do through the medium of a railroad company to be organized by us for that purpose; such railroad company, if organized, shall receive a concession from Nicaragua which shall in all respects be satisfactory to us; in such case the cost of the new railroad shall be paid, one-half thereof by the Republic, and the other half by us; in consideration of its contribution, the Republic shall receive 5% noncumulative preferred stock of the railroad company to any amount representing at par the cash contribution of the public, such preferred stock to be the entire issue of such stock; in consideration of our contribution, we shall receive first-mortgage bonds of said proposed railroad company to an amount which, calculated at 85% of their par value, shall represent our cash contribution, and in addition thereto we shall receive all the common stock of the railroad company, which stock shall be issued to an amount sufficient to give us a majority of all the stock and the control of the corporation.

Note by Mr. S. M. P.: Management of railroads.

Mr. MALLET-PREVOST. This [indicating] is a bid or proposition which was finally signed. I might say that in the early part of June Messrs. J. & W. Seligman & Co. came into the matter and became interested with Brown Bros. Up to that time Brown Bros. had been the only ones negotiating, and on June 21, 1911, they, with J. & W. Seligman & Co., signed this letter which I delivered two days later to Mr. Wands in this city.

Senator HITCHCOCK. Up to this time neither Brown Bros. nor Seligman had loaned anything to Nicaragua?

Mr. MALLET-PREVOST. Nothing. This was the first proposition [reading]:

Copy.1

9084 G.

JUNE 21, 1911.

ERNEST H. WANDS, Esq.,

Financial Agent of Nicaragua,

% Department of State of United States, Washington, D. C.

DEAR SIR: Referring to the proposed loan which the Republic of Nicaragua desires to obtain, we have prepared and hand you herewith drafts of two proposed contracts which, taken together, with the schedules to which they refer, substantially embody our views as to the conditions upon which such a loan should be made.

In preparing these draft contracts we have considered not only our own interest, but also the interest and credit of Nicaragua, and have endeavored to frame a proposition which should commend itself to the Republic as fair and equitable and as calculated to accomplish those particular ends which it has in view.

Upon further study it may be deemed desirable to change some of the provisions of these draft agreements, as submit the papers, therefore, as not necessarily final. If the Republic should approve the plan in principle, we shall be glad to discuss the details of the proposed agreements.

If contracts substantially along the lines of the draft contracts inclosed shall be finally agreed upon, there will be certain necessary expenses preliminary or incidental to the proposed bond issue and essential to the creation of a public market therefor, we refer to the printing and engraving of provisional and definitive bonds in various languages, to the listing of those bonds on such exchanges as may be selected by the bankers, to the payment of foreign-stamp taxes on the issue, and to the compensation and expenses of the trustee for certifying the bonds, etc. All such expenses are, of course, properly chargeable to the Republic. Just exactly what these expenses may amount to it is difficult, at this time, to state. But, if the proposition, which we submit below, should be accepted by the Republic we are willing to assume the payment of all of such expenses if the Republic will, out of the proceeds of the loan, pay to us the sum of \$450,000.

That was about what we estimated that this expense would be. The tax in France was by far the largest item.

If the Republic will agree to make this payment, and if final contracts shall be agreed upon as above stated, we propose:

(a) To purchase, in accordance with the terms of such final contracts, \$12,000,000, par value, of the proposed bonds, for the sum of ten million eight hundred and sixty thousand dollars (\$10,860,000); that is to say at the rate of 90½% for each bond, with interest adjusted at 5% to date of payment.

(b) To engage ourselves to purchase the remaining \$3,000,000, par value to be issued withing the next five years, at the same rate of 90½% and interest for each bond, or at a higher rate as provided in the contract.

(c) To advance \$500,000 to the Republic immediately that the contracts become effective, to be used as it may elect—

Senator HITCHCOCK. Was that interest at 5 per cent at par?

Mr. MALLET-PREVOST. Yes.

Secretary BRYAN. But they were to take it at 90½.

Senator HITCHCOCK. Yes. It was a higher rate of interest. 5.5+

Mr. MALLET-PREVOST (continuing reading):

(d) To incorporate a bank of issue, which shall act as depository and disbursing agent of the Government and do a general banking business in Nicaragua.

(e) To make a careful study of the currency conditions and requirements, and to formulate a plan for the reform of the currency system.

(f) To organize forthwith an engineering party to make surveys for a proposed railroad to Rama, with branch to Matagalpa, and upon receipt of the engineering report ourselves to prepare a report thereon with recommendations.

That was the road to connect with the Atlantic coast.

(g) To act as fiscal agent of the Republic and as such to cooperate with it for the amelioration of its external and internal affairs, our compensation as such fiscal agent to be agreed upon hereafter.

(h) To enter into active negotiations with the Ethelburga syndicate for the settlement and adjustment of all differences between the Republic and said syndicate, from which negotiations all benefits, except out-of-pocket expenses only, are to accrue to the Republic.

Drafts of the form of the bond, of the bank charter, and of the railroad concession will be submitted to you as soon as they can be prepared, when they will become part of the proposed contracts above mentioned.

While the proposed contracts state that the Government shall have until September 1, 1911, for the steps necessary to be taken in order to permit of the issue of the bonds, and while we are quite willing to allow that period for that purpose in case our present offer should be accepted, it is important that we should know at as early a date as possible whether the Government of Nicaragua accepts our present offer. We beg, therefore, that you will advise us of the action of the Nicaragua Government in that behalf on or before July 7th next, until which time this offer will remain open. Should the Republic require further time for this purpose, the period may hereafter be extended if we deem it desirable to do so.

Very respectfully, yours,

(Signed)

BROWN BROS. & Co.
J. & W. SELIGMAN & Co.

The drafts of the contracts which I referred to in that letter and which were presented I have here, and they provide substantially what is covered by that letter.

(The drafts of the contracts referred to are as follows:)

TRUST AND FISCAL AGENCY CONTRACT.

Contract made at the city of New York this ——— day of ———, 1911, between the Republic of Nicaragua, hereinafter called the "Republic," party of the first part; ——— Trust Company, a corporation organized under the laws of the State of New York, hereinafter called the "trustee," party of the second part; and Brown Brothers & Company and J. & W. Seligman & Company, copartnerships doing business in the city of New York, who, acting together, are hereinafter called the "fiscal agent," parties of the third part.

Whereas in order to secure strength and security of governmental administration, the meeting of foreign obligations, and the tranquility, prosperity, and progress of the country, and with a view to the funding of its debt and the placing of its finances upon a sound and stable basis, the Republic has entered into a convention with the United States of America, dated ———, 1911, a copy of which, marked "Schedule A," is hereto annexed and made a part hereof; and

Whereas the Republic has, under said convention, undertaken to make and negotiate a contract providing for the refunding of its present internal and external debt, for the adjustment and settlement of unliquidated claims, for the placing of its finances upon a sound and stable basis, and for the future development of the natural and economic resources of the country, which said contract shall be secured by the customs of the Republic; and

Whereas the Republic desires to introduce and maintain a stable currency system, to provide proper banking facilities, and to improve and extend its railroad and other means of communication; and

Whereas in order to provide means for the purposes above stated, and in pursuance of said convention, the Republic proposes to create and issue its bonds to the aggregate principal amount of \$15,000,000, United States gold, to be secured under said convention and under this contract; and

Whereas the Republic desires the ——— Trust Company to act as trustee for the holders of the proposed bonds and as transfer agent of such bonds, and desires Brown Brothers & Company and J. & W. Seligman & Company to act jointly as fiscal agent of the Republic in respect of the proposed loan, with the powers and duties hereinafter prescribed:

Now, therefore, in consideration of the premises and of the mutual covenants and undertakings hereinafter contained, the parties hereto covenant and agree to and with each other as follows:

ARTICLE FIRST.—*The bonds.*

ISSUE.

1. The Republic shall issue its bonds to the aggregate principal amount of \$15,000,000, United States gold, which shall be designated and known as the “——— per cent customs-administration sinking-fund gold bonds of the Republic of Nicaragua,” therein for brevity called the “bonds”; the total amount of bonds issued and outstanding, including those held in the sinking fund, as hereafter provided, shall never at any one time exceed the principal sum of \$15,000,000.

DATE AND MATURITY OF BONDS.

2. The bonds shall be dated ———, 1911, shall mature ———, and shall bear interest (represented by coupons) at the rate of ——— per cent per annum from ———, 1911, payable semiannually on the first days of ——— and ——— of each year; the principal and interest shall be payable in United States gold coin of or equal to the present standard of weight and fineness; the bonds shall be subject to redemption out of the sinking fund at a premium of ——— per cent and accrued interest on the first day of ——— and on any first day of each ——— thereafter, as hereinafter provided.

When and as paid, all coupons shall forthwith be canceled by the trustee.

DENOMINATIONS.

3. The bonds may be issued in dollars, pounds sterling, francs, marks, or florins, and shall be of such denomination, not below \$50, United States gold, or its equivalent in the other currencies mentioned, as from time to time may be determined by the fiscal agent. The bonds of each currency and of each denomination shall be designated by a distinctive letter, and shall be numbered consecutively.

PAYMENT.

4. The bonds, both as to principal and interest, shall be payable at the office of the trustee in the city of New York; or may, at the option of the holder be payable in London, at the fixed rate of exchange of \$4.85 per pound sterling; or in Paris, at the fixed rate of exchange of 5 francs 21 centimes to the dollar; or in Brussels, Geneva, or Zurich at the equivalent of the amount payable in Paris at the day's rate for sight drafts on Paris; or in Hamburg or Berlin, at the fixed rate of exchange of 4 marks, 20 pfennigs to the dollar; or in Amsterdam, at the fixed rate of 2.49 florins to the dollar; and at such places in said respective cities as shall be specified in said bonds or in the interest coupons, or as may be determined from time to time by the trustee.

FORM OF BONDS.

5. The bonds, together with the coupons appertaining thereto, shall be substantially in the form and of the tenor and purport as shown in Schedule E hereto annexed; they shall be in both the English and Spanish languages, and any of them may also be in French, German, or Dutch, as the fiscal agent may determine, but in each and every case the English text shall govern. The bonds shall have impressed thereon the seal of the department of finance of the Republic, and all bonds shall be signed in the city of New York by

the minister of finance of the Republic, or shall bear his engraved facsimile signature; and, in the latter case, shall be signed in said city by a special delegate of the Republic to be appointed by the minister of finance. The coupons to be attached to the bonds shall be in English, and may also be in any other language, as the fiscal agent may determine; said coupons shall bear the engraved facsimile signature of the minister of finance of the Republic. The printing and engraving of both the temporary and definitive bonds shall be under the direction of the fiscal agent, and the bonds generally may be in such form as it may determine.

AUTHENTICATION.

6. Each bond shall bear indorsed thereon a certificate, substantially in the form as shown in Schedule E, which shall be executed on behalf of the Republic by the trustee authenticating such bond. No bond shall be valid without such certificate so executed; and such certificate shall be conclusive evidence that the bond so certified has been duly issued in pursuance of said convention and of this agreement, and that the holder is entitled to the benefits thereof.

REGISTRATION OF BONDS.

7. The bonds shall be payable to bearer or, if registered, to the registered holder thereof, with the privilege on the part of the holder of any bond, under such regulations as the fiscal agent of the loan may prescribe, to have such bond registered as to principal at the office in the city of New York of the trustee of the loan, which trustee shall be ex officio transfer agent of the bonds, and at such other places and under such regulations as the minister of finance of the Republic and the fiscal agent of the loan from time to time may prescribe. After such registration, the principal shall be payable only to the registered holder, but the same may be transferred to another registered holder and may be discharged from registry by being transferred to bearer.

Any bonds redeemed or purchased for account of the sinking fund as herein-after provided shall, upon their delivery to the trustee, be appropriately stamped as bonds held by said trustee under the provisions of article fifth hereof; the coupons attached to such bonds shall thereupon be canceled, and thereafter all interest accruing upon such bonds shall, as the same becomes due, be paid to the trustee.

WHO SHALL BE RECOGNIZED AS OWNERS.

8. The bearer of any coupon or of any bearer bond or, if registered, the registered holder of such registered bond may be deemed and treated by the Republic, the trustee, and the fiscal agent, and each of them, as the absolute owner of such coupons or bond, as the case may be, for the purpose of receiving payment therefor, and for all other purposes, and no notice to the contrary shall affect said Republic, said trustee or said fiscal agent.

LOSS, MUTILATION, AND EXCHANGE OF BONDS.

9. In case any bond with its coupon shall become mutilated or shall be destroyed or lost, the Republic may issue and thereupon the trustee, at the request of the minister of finance of the Republic, shall certify and deliver a new bond of like amount, tenor, and date, bearing the same serial number and designation, in exchange and substitution for and upon cancellation of the mutilated bond and its coupons, or in lieu of and substitution for the bonds and its coupons so destroyed or lost; but, in the case of a destroyed or lost bond, such new bond shall be issued only in the discretion of the Republic and of the trustee, upon receipt by the Republic and by the trustee of evidence satisfactory to them of the destruction or loss of such bonds and its coupons, and upon receipt also of indemnity satisfactory to said Republic and trustee.

Upon the like surrender and cancellation of bonds of any denomination, the Republic shall issue, and the trustee shall authenticate and deliver, in exchange therefor, bonds of a different denomination or different denominations to an amount in the aggregate equal to the aggregate amount of the bonds so surrendered and canceled.

At any time, with the consent of the fiscal agent, but not otherwise, bonds issued in any one of the currencies mentioned in subdivision 3 above may, at

the option of the holder or registered owner thereof, be surrendered and exchanged for bonds in another of said currencies to an amount in the aggregate equal at the rate of exchange mentioned in subdivision 4 above to the aggregate amount of the bonds so surrendered; thereupon said surrendered bonds shall be canceled.

LISTING OF BONDS.

10. As and when requested by the fiscal agent, the Republic shall make, or authorize to be made, application for an official quotation of the bonds on the stock exchanges in New York, London, Paris, Brussels, Geneva, Zurich, Amsterdam, Hamburg, and Berlin, or either or any of said cities; and, for that purpose, shall prepare the necessary prospectuses. Such applications and any other documents that may be necessary shall be signed on behalf of the Republic by its minister of finance or by some other qualified officer or person, or otherwise as may be required; and from time to time the Republic shall take such actions and shall make such agreements and payments, including payment of stamp or other duties, as may be requisite in order to secure an official quotation of the bonds on such exchanges or as may facilitate the sale and delivery of the bonds in any of said countries.

TEMPORARY BONDS.

11. Pending the engraving and execution of definitive bonds, the Republic may execute and deliver temporary printed bearer bonds, substantially of the tenor of the definitive bonds, except that no coupons shall be attached thereto, and each bond may be issued in such denomination or denominations as the fiscal agent may determine. Said temporary bonds shall have printed upon their face "Temporary bond, exchangeable for engraved bonds," and shall be duly authenticated by the trustee in the same manner and with like effect as the definitive bonds. Such temporary bonds shall be exchangeable for definitive bonds, when engraved and executed; and upon any such exchange, such temporary bonds shall forthwith be canceled by the trustee, and, having been so canceled, shall be physically destroyed in the presence of a representative of the trustee and a representative of the Republic; said representative shall thereupon together execute in triplicate a certificate attesting such destruction and shall deliver one counterpart thereof to the Republic, one counterpart to the trustee, and one counterpart to the Department of State of the United States. Until so exchanged, such temporary bonds shall in all respects be secured under said convention and under this contract; and, when and as payable, interest shall be paid to bearer and indorsed or noted thereon. Without unreasonable delay, the Republic shall cause the definitive bonds in engraved form to be duly executed and delivered to the trustee to be exchanged for such temporary bonds upon surrender thereof to the trustee.

GOVERNMENT OBLIGATION TO PAY LOAN.

12. The loan represented by the proposed bonds shall constitute, and is hereby declared to be, a direct liability and obligation of the Republic, irrespective of any security provided hereunder, and the Republic hereby pledges its faith and credit for the due and punctual payment of the principal and interest of the loan and of all amounts required for or incident to the service of the loan and for the performance of all the undertakings on its part herein contained.

EXEMPTION FROM TAXES.

13. The Republic will pay the stamp or other duties, if any, to which under the laws of the Republic this contract is or may be subject; and the bonds shall always be exempt, both as to principal and interest, from all taxes now or hereafter established by or within the Republic.

ARTICLE SECOND.—*Security.*

SECURITY FOR THE LOAN.

1. In pursuance of said convention the principal and the interest of the bonds, the installments of the sinking fund hereinafter provided for, and all

other amounts required for or incident to the service of the loan shall be secured by, and hereby are made, a first lien and charge:

(a) Upon all customs receivable by or for the Republic on and after the 1st day of —, 1911, whether such customs be imposed on exports or imports;

(b) Upon the present railroad from Corinto to Granada with its franchises, equipment, and other appurtenances, and upon all net income and earnings therefrom, it being understood that a present indebtedness of or lien upon said road of about \$6,000 shall be forthwith discharged by the Republic.

(c) As and when constructed and completed, except as hereinafter provided, upon a new railroad, with its franchises, equipment, and other appurtenances, proposed to be constructed from some point on or near the Atlantic coast to the Great Lake of Nicaragua, or to connect with the present Corinto-Granada Railroad with a line to Matagalpa; and

(d) Upon all improvements and extensions which may hereafter be made on or to any of said railroads.

For the above purposes and generally as security for the loan and for the performance of all the obligations of the Republic hereunder, the Republic hereby grants, assigns, and transfers to the trustee and its successors, in trust for the holders of the bonds, all such customs, the railroad from Corinto to Granada with its appurtenances and all net earnings receivable from said railroad; and agrees to transfer to the trustee all improvements and extensions hereafter made to said railroad. In case the new railroad proposed to be built shall be constructed by or for account of the Republic, the Republic also agrees to grant, assign, and transfer the same, as and when constructed, to the trustee and its successors, together with its franchises, equipment, improvements, extensions, and appurtenances, and all net earnings receivable therefrom; in case, however, said new railroad should be constructed by or for account of a railway corporation, as hereinafter contemplated, it shall be and remain wholly free from the lien of this instrument and shall not be security for any of the bonds issued hereunder; but in that case any shares of stock of said railway corporation to which the Republic may become entitled shall be deposited with the trustee as security hereunder, and the Republic agrees to grant, assign, transfer, and deliver the same and any dividends and income which may be declared and paid thereon to the trustee.

The Republic shall, with the consent in writing first obtained of the trustee, have the right to sell and convey, freed from the lien and incumbrance of this instrument, the present road from Corinto to Granada with its franchises, equipment, and other appurtenances, provided, however, that the proceeds of any such sale, whether in cash or securities, shall be delivered to and pledged with the trustee as security hereunder in lieu of the property so withdrawn. Said consent shall not, however, be granted by said trustee except upon the request or approval in writing first obtained of the fiscal agent. Upon any such sale and upon the deposit with the trustee of the proceeds thereof as aforesaid, the trustee is hereby expressly authorized and required to release from the operation and lien of this instrument the property so sold.

The income and revenue from all of the above sources shall be collected and applied as hereinafter provided.

CUSTOMS NOT TO BE CHANGED.

2. Without the written consent of the fiscal agent, the customs duties on exports and imports and other charges affecting the entry, exit, or transit of goods, in force in Nicaragua at the date hereof, shall not be altered during the continuance of the loan, unless and until for each of two consecutive calendar years next preceding any proposed change the customs receipts of the Republic shall have exceeded \$2,000,000 gold coin of the United States of America, or its equivalent, nor then unless at the new rates proposed to be adopted, and on the basis of exportations and importations to the like amount and of the like character as during said two calendar years, the total customs of the Republic for each of such two years should have exceeded the sum of \$1,500,000 in such United States gold coin, or its equivalent, and unless further the consent of the Secretary of State of the United States shall have first been obtained.

ARTICLE THIRD.—*Collection of Customs.*

APPOINTMENT OF COLLECTOR GENERAL OF CUSTOMS.

1. So long as any of the bonds shall remain unpaid, all customs, both on exports and imports, receivable by or for the Republic as aforesaid shall be col-

lected, held, deposited, disbursed, and administered by a collector general of customs, who shall be appointed by the Republic pursuant to said Convention; and the Republic agrees that from time to time, while any of the bonds shall remain outstanding, it will appoint such collector general of customs from a list of names to be selected and presented by the fiscal agent and approved by the President of the United States, and that it will make such appointment within 10 days after the presentation of any such list. Any collector general of customs so appointed shall be removed upon demand of the fiscal agent, to be communicated through the Department of State of the United States, and in case of such removal or of his death or permanent inability to act, from any cause, a new collector general of customs shall be so appointed by the Republic from a list of names to be selected, approved, and presented as aforesaid, and such new appointment shall be so made within 10 days after the presentation of such list, and shall take effect immediately.

In case of and during the illness, absence, or temporary inability to act, from any cause, of the collector general of customs, his duties shall be performed by such deputy or assistant, appointed as hereinafter provided, as he shall select.

APPOINTMENT OF SUBORDINATES.

2. A deputy collector and all assistants and employees required for the collection and application of the customs revenues shall be named by the collector general of customs; and shall be removed at his request; the minister of finance of the Republic shall, upon the written request of the collector general of customs, forthwith appoint all persons so named, shall remove all persons whose dismissal is recommended by said collector general, and shall appoint in their places such other persons as he may designate.

COST OF COLLECTION.

3. The compensation of the collector general of customs shall be determined by the fiscal agent, subject to the approval of the minister of finance of the Republic and of the Secretary of State of the United States, and the compensation of the deputy collector and of all assistants and employees, as also all expenses incident to the collection and application of customs, shall be determined by the collector general of customs, provided, however, that the total annual expenses of such collection shall not exceed such reasonable sum as shall from time to time be agreed upon by the minister of finance of the Republic and the fiscal agent and approved by the Secretary of State of the United States, or in case of disagreement between the first two, then such sum as shall be determined by said Secretary of State.

POWERS AND DUTIES OF COLLECTOR GENERAL OF CUSTOMS.

4. From time to time the Republic will take all action necessary to vest in the collector general of customs full authority as such, will give him all needful aid and assistance, will fully protect him and his assistants, agents, and subordinates in the exercise of his and their functions, and will provide for the collection and application by him of all customs revenues in accordance with the provisions of this agreement. The Republic hereby irrevocably authorizes and directs such collector general of customs, and it shall be the duty of such collector general:

(a) To render to the fiscal agent monthly reports of all such import and export customs and of all disbursements therefrom, in such form and detail and accompanied with such data as the fiscal agent from time to time may specify; and

(b) To pay and apply all such import and export customs, with preference and priority, as follows:

First. To the payment, within the limit above provided, as they shall arise, of the expenses, ordinary and extraordinary, attending the collection of such customs, including the expense of obtaining proper bonds for the faithful performance by the collector general and his assistants of his and their duties, in case the Republic or the trustee shall desire such bonds for the protection of their interests.

Second. To the payment to the trustee, as hereinafter specified, of sums to be used in payment of the interest upon the bonds, in accordance with their terms, including interest upon all bonds in the sinking fund as herein provided.

Third. To the payment to the trustee of the annual sums required for the sinking fund as hereinafter specified.

Fourth. To the payment of the compensation and expenses of the trustee and of the fiscal agent.

Fifth. To the payment of any balance remaining to or upon the order of the minister of finance of the Republic.

EXAMINATION OF COLLECTOR GENERAL'S ACCOUNTS.

5. The trustee and the fiscal agent, by their agents and appointees, shall have the right from time to time to examine the books, records, and accounts of the collector general of customs.

ARTICLE FOURTH.—*Interest and sinking fund.*

REMITTANCES TO THE TRUSTEE.

1. The collector general of customs shall, at least monthly, after paying the expenses of collection, remit to the trustee all amounts collected as customs; and such remittances shall continue until the total amount received by the trustee during any year, beginning on the 1st day of ———, shall be sufficient to pay the following obligations of the Republic hereunder maturing during that year, viz:

(a) The annual interest at the rate of 5 per cent per annum upon the bonds then issued and outstanding, including all bonds from time to time held in the sinking fund.

(b) An annual amount for the sinking fund, which annual amount shall be equal to a minimum of 1 per cent of the face value of the bonds then issued and outstanding, including all bonds from time to time held in the sinking fund.

(c) All expenses incident to the service of the loan.

2. For the purpose of creating a reserve fund, the collector general of customs shall in each such year, after making the payments and remittances specified in the last preceding paragraph and after paying the expenses of further collection, remit to the trustee all amounts collected as customs; and such remittances shall continue until the total amount received by the trustee under this provision during such year shall equal the interest and sinking-fund charges and expenses corresponding to a period of two months. The sums thus to be received by the trustee shall be accumulated in a reserve fund until the amount of such fund shall equal the interest and sinking-fund charges for an entire year; thereafter, and so long as said reserve fund shall remain unimpaired, no further remittances shall be made by the collector general of customs for this special purpose; but if at any time thereafter any part of said reserve fund should be required for and applied to interest and sinking-fund purposes the collector general of customs shall resume remittances in accordance with the provisions of this paragraph, and shall continue the same until the amount taken from the reserve fund shall have been repaid.

3. All amounts which the collector general of customs may collect during any such year, after the payments and remittances called for by the two preceding paragraphs shall have been made, less the expenses of collection, shall be paid to the Republic.

4. If the customs receipts for any such year, after the payment of the expenses hereinbefore mentioned, attending the collection of such customs, shall be insufficient to make the payments in this article provided for, the collector general of customs shall so notify the minister of finance, and the Republic shall thereupon from other sources pay to the trustee a sum which with the amounts already received by the trustee shall be sufficient to make the required payments.

PAYMENT OF INTEREST.

5. The amount paid as aforesaid in respect of interest shall be applied by the trustee to the payment of the interest on the bonds on the first days of ——— and ——— of each year, as and when the same shall accrue.

INCREASE OF SINKING FUND.

6. When and as often as the total customs receipts in any calendar year shall reach the sum of \$——, gold coin of the United States of America, one-half of any surplus above that sum thereafter collected during that year, in addition to the sums hereinabove provided for, shall in like manner be paid by the collector general of customs to the trustee and shall become part of the said sinking fund. The Republic, at any time, at its option, may make or cause to be made to the trustee additional payments for account of the sinking fund, out of any sums which may be payable to the Republic hereunder or from any other resources of said Republic, it being the intention that the Republic may, in this way, at its option and at any time, provide, through an increase in the sinking fund, for the payment of all or of any portion of the then outstanding bonds.

REDEMPTION OF BONDS.

7. The amounts paid as aforesaid in respect of the sinking fund (less such amount as may have been used by the trustee in the purchase of bonds as hereinafter provided) and any income or interest thereon in the hands of the trustee at the date of drawing, shall be applied to the redemption of said bonds on the 1st day of ———, 1912, and on the 1st day of ——— in each succeeding year thereafter, up to and including the year ———, or so long as any of said bonds shall remain outstanding and unpaid. Said bonds shall be redeemed at a premium of 2½ per cent, exclusive of and in addition to any interest accrued and due thereon, which latter shall be paid as interest and not from the sinking fund.

DRAWINGS.

8. The particular bonds to be redeemed on each occasion out of moneys paid to the trustee in respect of the sinking fund shall be determined by drawings to be made at the office of the trustee, in the borough of Manhattan, city of New York, or at some other place appointed by the trustee. Such drawings shall be held under the direction of a representative of the trustee, and, at the option of the minister of finance of the Republic, in the presence of a representative of the Republic appointed for that purpose. The first of said drawings for bonds to be redeemed as aforesaid shall be held not later than the 1st day of ———, 1912, and thereafter not later than the 1st day of ——— in each year up to and including the year ———, or so long as any of said bonds shall remain outstanding and unpaid. Drawings to determine the particular bonds to be redeemed as aforesaid shall be held on a date not less than 60 days prior to the next succeeding interest date.

NOTICE REGARDING BONDS DRAWN.

9. Forthwith after every drawing to determine the particular bonds to be redeemed as aforesaid the trustee shall give notice in writing to the Republic of the bonds which have been drawn for redemption, and shall also give to the holders of the bonds so drawn notice in the manner hereinafter specified of the Republic's intention to redeem such bonds. Said notice shall be by an advertisement to be published not less than once a week for six successive weeks in one newspaper of general circulation in the city of New York, in one newspaper of general circulation in the city of London, and in one newspaper of general circulation in the city of Paris, to be selected by the trustee, and, if the trustee shall deem necessary, in one newspaper of general circulation in any or all of the cities in Europe in which the bonds shall be made payable, the first publication to be made not later than 50 days prior to the date fixed for the redemption of said bonds. If the holder of any registered bond so drawn shall have filed with the trustee a written request that notice of the result of any such drawing be mailed to him at an address given in such request, notice shall be so mailed to him on or before the date of the first publication of notice as aforesaid. Said notice shall state the numbers of the bonds drawn and shall fix a time and place or places for the surrender and payment of the bonds so to be redeemed.

SURRENDER AND PAYMENT OF BONDS.

10. At the time and at any of the places at which said bonds shall be expressed to be payable as aforesaid the holder of the bond or bonds to be

redeemed shall surrender the same to the trustee with all coupons maturing after the date on which they are to be so purchased, and upon such surrender the trustee shall, out of said sinking fund, cause to be paid to the holder of such bonds the amount payable to him in respect of such redemption.

PURCHASE OF BONDS.

11. In case the market price of the bonds shall at any time be at or below 102½, exclusive of the accrued interest, the trustee, at any time before the annual drawing, to determine the particular bonds to be redeemed as aforesaid, may purchase any such bonds out of the amount paid to it in respect of such sinking fund, any amount payable in respect of accrued interest to be paid as interest and not from the sinking fund. All bonds so purchased shall be held by the trustee for the same purposes and in the same manner as bonds surrendered and redeemed.

INTEREST ON BONDS REDEEMED OR PURCHASED.

12. All bonds drawn for redemption out of moneys paid to the trustee in respect of the sinking fund shall cease to bear interest in favor of the holders of such bonds as from the date upon which the same are to be redeemed, but all bonds so drawn, when surrendered to the trustee, and all bonds from time to time purchased by means of the sinking fund, shall continue in force and shall bear interest in favor of the trustee until the entire issue of bonds shall have been purchased or paid for. As such interest shall mature the trustee shall collect the same, and the amounts so collected and the interest on any unpurchased bonds which may have been drawn for redemption, accruing after the date appointed for such redemption, as well as the interest accruing on any investment held in the sinking fund, shall also become part of the sinking fund. None of the bonds so purchased or redeemed shall be cancelled, but the trustee shall cause the same to be appropriately stamped as no longer negotiable and as belonging to the sinking fund.

SINKING FUND AS SECURITY.

13. All moneys, securities, and other assets forming part of the sinking fund under any of the provisions of this article shall be held by the trustee in trust for the further security of the outstanding bonds until applied by the trustee to the redemption or purchase of bonds for the sinking fund, or until the designation by lot of the bonds for redemption. From and after any such designation by lot, such moneys, securities, and other assets, to the extent required to effect such purchase of the bonds so designated for purchase, shall be held for the payment of the purchase price of such designated bonds.

PAYMENT AND CANCELLATION OF ENTIRE ISSUE.

14. Upon the payment in full of all bonds not held in the sinking fund or upon the deposit with the trustee of a sum sufficient under his article to redeem or purchase all such bonds or sufficient to cover the payment of all such bonds at maturity and the interest thereon up to such maturity, and upon payment of all other sums required by this agreement to be paid by the Republic, thereupon all the bonds then held in the sinking fund shall be cancelled by the trustee, and, having been so cancelled, the same shall thereafter be physically destroyed in the presence of a representative of the trustee and of a representative of the Republic, who shall join in the execution in triplicate of a certificate attesting such destruction. One counterpart of such certificate shall be delivered to the Republic, one counterpart to the trustee, and one counterpart to the Department of State of the United States, and thereupon this agreement shall cease and determine except in respect to the application of said sinking fund.

ADDITIONAL BONDS PURCHASED BY THE REPUBLIC.

15. In case during any year the Republic shall purchase any of said bonds the same may be delivered to the trustee, and when so delivered shall be held by it for the same purposes and in the same manner as bonds surrendered and redeemed out of the sinking fund. In respect of any bonds so delivered, the

Republic shall be credited in the sinking fund with the amount, not over 102½ and accrued interest, paid by it for such bonds. If the amount so credited shall be equal to the minimum amount required to be paid during said year for the sinking fund, under subdivision 1 of this article, the collector general of customs shall not be required to make any further payment during said year under said subdivision; if such credit shall be less than said minimum amount, the collector general shall be required to pay only the difference between such credit and such minimum amount.

INVESTMENT OF SINKING FUND.

16. All moneys forming part of the sinking fund which shall from time to time or at any time remain in the hands of the trustee may from time to time be invested and reinvested by the trustee in securities in which, under the laws in that behalf then in force in the State of New York, trustees may be authorized to make investments, or if not so invested, shall remain on deposit with the trustee hereunder and draw interest at the rate of 2 per cent per annum. The income from such investments and the interest upon such deposits, if any, shall be paid into the sinking fund and shall be a part thereof.

EXPENSES.

17. All expenses incurred in good faith by the trustee in connection with the drawing or purchase of the bonds under this article, or for the payment of the principal or interest of the bonds, or otherwise in the service of the loan, including the cost of cabling and of remittances to Europe and the publication in New York, in Europe, and elsewhere of the notices required hereunder shall be paid by the Republic as hereinbefore provided. No part of any such expenses shall be paid from or charged against the sinking fund.

ARTICLE FIFTH.—*Expenses of fiscal agent and trustee.*

From time to time, on the written request of the trustee and of the fiscal agent, respectively, made either to the minister of finance of the Republic or to the collector general of customs, there shall likewise be paid to them, respectively, all expenses incurred by them, or either of them, in good faith in the service of the loan or in the performance of any duty imposed upon them, or either of them, hereunder, and also such further amounts as they shall respectively estimate may be required by them to meet all expenses reasonably incident to the immediate future service of the loan or to the discharge of said duties.

ARTICLE SIXTH.—*Management of Railroads.*

APPOINTMENT OF GENERAL MANAGER.

1. In case the proposed new railroad mentioned in article first and in article seventh, subdivision F, should be constructed by or for account of the Republic, and so long as the ownership thereof shall remain in the Republic, and so long as the Republic shall retain the ownership of the present railroad from Corinto to Granada, and so long as any of the bonds shall remain unpaid, said proposal and said present railroads shall be managed and operated, on behalf of the Republic, by a general manager, to be selected from time to time by the fiscal agent with the approval of the Secretary of State of the United States, and to be appointed by the Republic. Any general manager so appointed shall be removed upon demand of the fiscal agent, to be communicated through the Department of State of the United States, and in case of such removal or of his death or permanent inability to act from any cause, a new general manager shall be selected and appointed in the same manner. Such appointment shall in each case be made within 10 days after the approval by the Secretary of State of the United States of the person to be selected by the fiscal agent, and such appointment shall take effect immediately.

In case of and during the illness, absence, or temporary inability to act from any cause, of the general manager, his duties shall be performed by such deputy or assistant, appointed as hereinafter provided, as he shall select.

APPOINTMENT OF SUBORDINATES.

2. An assistant general manager and such other assistants and employees as may be required for the management and operation of the railroads shall be appointed by the general manager and shall be removed at his pleasure.

COST OF MANAGEMENT.

3. The compensation of the general manager shall be determined by the fiscal agent, subject to the approval of the minister of finance of the Republic and of the Secretary of State of the United States, and the compensation of the assistant general manager and of all assistants and employees, as also all expenses incident to the management of said railroads, shall be determined by the general manager.

POWERS AND DUTIES OF THE GENERAL MANAGER.

4. From time to time the Republic will take all action necessary to vest in the general manager full authority as such, will give him all needful aid and assistance, will fully protect him and his assistants, agents, and subordinates in the exercise of his and their functions, and will provide for the management and operation of the railroads by him in accordance with the provisions of this contract. The Republic irrevocably authorizes and directs such general manager, and it shall be the duty of such general manager to manage and operate said railroads and to do the things hereinafter stated.

Out of the gross earnings and income of the said railroads, the general manager shall first pay, as they arise, all expenses connected with the maintenance and operation thereof, including compensation to the general manager and his assistants, agents, and subordinates. He shall then pay and set apart such sum or sums as from time to time may in his opinion be necessary for betterments and improvements of said railroads; and annually from and after the commencement of operations hereunder, any balance remaining from such gross earnings and income shall be paid over by said general manager to the Republic, so long as the payments required to be made hereunder for interest and to the sinking fund are not in default. During the continuance of any such default, such balance shall be paid to the trustee, and it shall be entitled to collect and receive any dividends declared and paid on any railroad company stock of the Republic deposited and pledged with it under the provisions of this contract, it being intended that the Republic shall be entitled to such dividends so long as no such default exists.

APPLICATION OF RECEIPTS TO INTEREST AND SINKING FUND.

5. Any and all amounts so received by the trustee as dividends or from the operation of the said railroads shall be credited and applied as a payment on account of the monthly payment or payments from the customs receipts for the interest and sinking fund.

RAILROADS SHALL NOT BE TAXED.

6. So long as any of the bonds shall be outstanding, the Republic shall not, directly or indirectly, levy, assess, or collect any taxes, duties, or imports of any description upon the said railroads or upon the rentals, earnings, and income or expenditure thereof.

ARTICLE SEVENTH.—*Disposition of bonds and appropriation of funds.*

SALE OF \$12,000,000 OF BONDS.

1. Upon the execution of the bonds on behalf of the Republic they shall be delivered to and authenticated by the trustee, who shall thereupon dispose of them as follows:

Upon the sale to Brown Brothers & Company and J. & W. Seligman & Company of \$12,000,000 par value of bonds, and upon payment to the trustee by Brown Brothers & Company and by J. & W. Seligman & Company of the sum of \$—— in cash, with interest adjusted at 5 per cent to date of payment,

the trustee shall deliver to Brown Brothers & Company and J. & W. Seligman & Company the bonds so sold; the remaining \$3,000,000 of bonds shall remain deposited with the trustee for the purposes hereinafter stated.

APPROPRIATION OF FUNDS.

2. The sum of \$—— in cash to be paid to the trustee as aforesaid, the remaining \$3,000,000 of bonds, the sum of about £389,375, said to be at present deposited with the London Bank of Mexico and South America, in London, England, to the credit of the Republic, and any sums which may hereafter be received or collected from the Ethelburga Syndicate, Limited, of London, shall be held by the trustee as a trust fund, and the trustee shall apply, use, and dispose of the same only as follows:

Said fund shall be divided into seven distinct funds to be known respectively as hereinafter designated and to consist of the cash and bonds hereinafter respectively assigned to each, to wit:

- (A) The Ethelburga fund, which shall consist of \$6,200,000 in cash;
- (B) The external debt fund, which shall consist of ——;
- (C) The internal debt fund, which shall consist of ——;
- (D) The mixed-claims commission fund, which shall consist of ——;
- (E) The banking and currency fund, which shall consist of ——;
- (F) The railway fund, which, except as hereinafter provided, shall consist of ——; and
- (G) The general fund, which shall consist of ——.

Each of said funds shall be dealt with separately and shall be available exclusively for the purposes hereinafter stated.

(A) *Ethelburga fund*.—Whereas certain differences have arisen between the Republic and the Ethelburga Syndicate, Limited, of London, with reference to an issue of bonds of the Republic made pursuant to the provisions of a contract dated January 19, 1909; and

Whereas the Republic desires to adjust said differences and to fully protect all bona fide purchasers and holders of bonds duly issued under said contract;

Therefore, the Republic, as a part of the consideration hereunder, hereby irrevocably authorizes the fiscal agent on its behalf to do whatever, in the opinion of said fiscal agent, may be fair, just, lawful or equitable in the adjustment of said differences with the Ethelburga Syndicate, Limited, and in the purchase or redemption of all bonds issued pursuant to said contract of January 19, 1909; to which end and with a view to the settlement and adjustment of the entire controversy the fiscal agent may make, execute, and deliver such agreements of compromise and settlement as it may deem proper, either with the Ethelburga Syndicate or with others; may purchase or redeem any or all bonds issued pursuant to said contract; may discharge, redeem, or convert the prior debts or loans of the Republic mentioned in said contract of January 19, 1909; or may provide for their discharge, redemption, or conversion; or may, in its absolute discretion, make use of any or all legal remedies available for the enforcement of the rights of the Republic in the premises; or may submit any or all questions which have arisen or may arise in the premises to arbitration under the provisions of said contract of January 19, 1909, or otherwise.

Any and all sums which may become payable to the Republic as the result of any such agreements or settlement, judgments, or arbitral decisions, shall be paid to the trustee for account of the Republic and shall be distributed among and become a part of the internal-debt fund, the "Mixed Claims Commission fund," etc., as above provided.

The \$6,200,000 constituting the Ethelburga fund shall be used exclusively for the purchase or redemption of bonds issued pursuant to the contract of January 19, 1909, or for the discharge, redemption, and conversion of the Republic's earlier debts and loans referred to in said contract, or for the payment of any sums which may become due by reason of any agreements of settlement as aforesaid, and the trustee is hereby expressly authorized and directed to make payments out of said Ethelburga fund in accordance with such written orders as may be filed with it by the fiscal agent.

After payment out of said Ethelburga fund of such sum or sums as may be required for the purposes aforesaid, and all expenses incurred by said fiscal agent in the premises, any remaining balance shall be transferred from the Ethelburga fund to the railway fund, to be dealt with as hereinafter provided.

(B) *External debt fund*.—The sum constituting this fund, or so much thereof as may be necessary, shall be used for the adjustment and settlement of the following external debts, to wit:

(1) The sum of \$550,000 and interest, being the balance still owing to the United States of America under a protocol dated September 18, 1909;

(2) The sum of about \$50,000 owing to the Nicaragua Fruit Company, in payment of a loan made by said company to the recent revolutionary Government.

(3) The sum of about \$5,000, owing to José Aramburu, in payment of a loan made by him to the recent revolutionary Government.

(4) The sum of about \$120,000, representing balances owing to various foreign correspondents of the Republic on accounts current.

The minister of finance of the Republic shall file with the trustee a statement showing the exact indebtedness in each of the above cases, liquidated to the date of payment, and shall accompany said statement with a written request to the trustee to make such payments; the statement and request so to be filed with the trustee shall be sufficient authority to him to make such payments; provided, however, that before making the same there shall be delivered to and filed with it proper assignments or releases satisfactory to the counsel of the trustee covering the indebtedness and claims so paid.

After payment out of said external debt fund of such sum or sums as may be required for the above purposes, and all expenses incurred in the premises, any balance which may remain shall be transferred to the railway fund and shall become a part of said railway fund, to be dealt with as hereinafter provided.

(C) *Internal-debt fund.*—The sum constituting this fund, or so much thereof as may be necessary, shall be used for the adjustment and settlement, pro rata, of the various internal debts of the Republic, consisting of internal loans and of balances in open account. The amounts payable in respect of such indebtedness shall be determined by agreement between the Republic and the respective creditors and approved by an auditor to be appointed by the Secretary of State of the United States. Upon the filing with the trustee of the orders of the minister of finance of the Republic for the payment of such indebtedness, indorsed with the approval of said auditor, the amounts called for by said orders shall be paid by the trustee pro rata out of said internal-debt fund; provided, however, that before making any of said payments there shall be delivered to and filed with the trustee proper assignments or releases satisfactory to the counsel of the trustee for the indebtedness so paid.

This fund shall not be available for the payment of any internal bonds of public credit, nor for "military exactions," nor for the redemption of paper money in circulation, nor for any of the claims which may be referred to the mixed commission hereinafter mentioned, nor for any other internal indebtedness or claims which may be otherwise provided for by this contract.

After payment out of said internal debt fund of such sum or sums as may be required for the above purposes, and all expenses incurred in the premises, any balance which may remain on the ——— day of ——— shall be transferred to the railway fund and shall become a part of said railway fund to be dealt with as hereinafter provided.

(D) *Mixed Claims Commission fund.*—A mixed commission, composed of three members, one selected and appointed by the Republic, one recommended by the United States of America and appointed by the Republic, and one appointed by the Department of State of the United States, has been created for the purpose of examining and deciding upon all unliquidated claims pending against the Republic, including such as may arise from the cancellation or suspension of monopolies, concessions, leases or other contracts made by former Governments of the Republic. The claims which may be presented to said commission include, among others, claims upon internal bonds of public credit, claims for account of "military exactions" and all other claims not otherwise expressly provided for in this contract.

Upon the filing with the trustee of the awards of said mixed commission such amounts as shall be payable in accordance with said awards shall be paid by the trustee pro rata out of said fund, provided that before such payments shall be made proper assignments or releases satisfactory to the counsel of the trustee, for the claims so paid, shall be delivered to and filed with the trustee. In making such payments, the trustee shall deal with the Mixed Claims Commission fund as follows:

The sum of \$—— in cash constituting a part of said fund, or so much thereof as may be necessary for the adjustment and settlement of all of said claims, shall be distributed among the claimants, pro rata, according to the amounts of their respective awards. If said cash sum should be insufficient to

pay said awards in full, the trustee shall, upon the written request of the minister of finance of the Republic, deliver to the fiscal agent for sale or for the purpose of obtaining a loan thereon all or such portion of the \$— of bonds constituting the balance of the Mixed Claims Commission fund as the minister of finance may direct, subject to the limitations established in this contract as to the amount of bonds to be sold and as to the time of any such sale; the net proceeds of such sale or loan shall be deposited with the trustee, who shall thereupon, out of said proceeds, pay the balance of said awards, or in case such proceeds should be insufficient for that purpose, shall distribute the same pro rata among said claimants.

After payment out of said fund of such sum or sums as may be required for the purposes aforesaid, any balance which may remain, either in cash or in bonds, shall be transferred to the railway fund and shall become a part of said railway fund, to be dealt with as hereinafter provided.

(E) *Banking and currency fund.*—The Republic has in contemplation the organization of a bank which shall be the depository of all Government funds in Nicaragua and which shall act as the fiscal and disbursing agent of the Government in that Republic. In case said Republic should become a subscriber to the capital stock of said bank, the amount of its subscription or subscriptions, not exceeding in all \$500,000, shall be paid by the trustee out of the banking and currency fund upon the filing with the trustee of the written orders of the minister of finance of the Republic directing such payments to be made.

The expenses incurred in connection with the incorporation and organization of said bank shall, if payable out of the banking and currency fund, be so paid upon the filing with the trustee of written orders of the minister of finance of the Republic directing such payments to be made.

The Republic has also in contemplation the adoption of a plan for the introduction and maintenance of a suitable currency system in Nicaragua. If such plan, to be approved by the Secretary of State of the United States, should be adopted, such sum or sums as may be required for that purpose shall be paid in accordance with said plan by the trustee upon the filing with said trustee of the written orders of said minister.

The expenses incurred in connection with the preparation of such plan shall be paid by the trustee out of said banking and currency fund upon the presentation to it by the fiscal agent of the account of such expenses accompanied by proper vouchers.

Any unexpended balance of said fund remaining in the hands of the trustee, not required under said plan or for payment of the Republic's subscription to the stock of the bank or for any other purpose approved by the minister of finance of the Republic and by the fiscal agent shall, but only with the consent of the fiscal agent, be transferred from the banking and currency fund to the railway fund and shall become a part of the railway fund, to be dealt with as hereinafter provided.

(F) *Railway fund.*—The Republic has in contemplation the construction of a railroad from some point on or near the Atlantic coast, preferably from Rama on the Escondido River, to connect with the Great Lake of Nicaragua or, preferably, with the present railroad from Corinto to Granada, and also of a railroad from some point on said line to Matagalpa, with such branch or branches as may be deemed desirable.

The expenses incurred in connection with the making of surveys by engineers and experts of the proposed railroads and for the reports, surveys, and maps to be furnished by them shall, if payable out of the railway fund, be so paid upon the presentation to the trustee by the fiscal agent of the account of such expenses accompanied by proper vouchers.

In case a railway corporation should be organized for the purpose of constructing and operating said railroads, the Republic may subscribe to the stock of such corporation, and in that case the trustee shall pay its subscription or subscriptions out of said railway fund on the written order or orders of the minister of finance of the Republic directing such payments to be made, but only upon the delivery to the trustees of noncumulative 5 per cent preferred stock of such railway corporation to an amount equal to the sums so paid out, and the stock so received shall be held by the trustee as part of the security for the bonds issued hereunder.

In case said railroad should be constructed as aforesaid by or for account of a railway corporation, and in case the Republic should subscribe to the stock of said corporation as above contemplated, said corporation may issue bonds

to be secured by a general mortgage of said road in priority of any stock to be taken by the Republic: *Provided*, That the total amount of such bonds shall not exceed 60 per cent of the cost of said railroad. In case, however, said corporation should at any time purchase or acquire other properties, and in case such other properties should be brought under the lien of said general mortgage the bonded indebtedness of said corporation may be increased by an amount not exceeding the actual cost of such new properties.

In case said railway corporation should not be organized as aforesaid, and in case such railroads should be constructed by or for account of the Republic, this shall be done under a construction contract which shall be subject to the approval of the fiscal agent, and the trustee shall in that case make payments out of said railway fund on the written order or orders of the minister of finance of the Republic, accompanied by the written certificate or certificates of such engineers as may be designated from time to time by the fiscal agent stating that the amount covered by such order or orders is actually due and payable for work done upon or for materials delivered to or for the said railroads.

In making the above payments, the trustee shall first dispose of the \$—— in cash constituting a part of said railway fund. After said cash sum shall have been exhausted, the trustee shall, upon the written request of the minister of finance of the Republic, deliver to the fiscal agent, for sale, or for the purpose of obtaining a loan thereon, all or such portion of the \$—— of bonds constituting the balance of the railway fund as the minister of finance may direct, subject to the limitations established in this contract as to the amount of bonds to be sold and as to the time of any such sale; the net proceeds of such sale or loan shall be deposited with the trustee, who shall thereupon apply said proceeds as hereinbefore stated.

(G) *General fund*.—This fund shall be used and applied for the following purposes only:

(1) The payment of all expenses heretofore incurred or which may hereafter be incurred by the Department of State of the United States in connection with the proposed loan, including the compensation of agents, experts, etc.;

(2) The payment to Messrs. Brown Brothers & Company and J. & W. Seligman & Company of the sum of \$—— in consideration of their agreement to pay the cost of printing and engraving the provisional and definitive bonds, the listing of those bonds on such exchanges as they may select, the payment of foreign stamp taxes on the issue, and the compensation and expenses of the trustee for certifying the bonds, the shipping and insurance expenses, and the trustee is hereby authorized and directed to make this payment simultaneously with the payment to it by Brown Brothers & Company and J. & W. Seligman & Company of the purchase price of the \$12,000,000 of bonds to be bought by them;

(3) The payment of \$—— in cash to the minister of finance of the Republic, to be used for such purposes as the Republic may determine.

The balance of said general fund shall be used for such public improvements in Nicaragua or for such other public purposes as may be agreed upon by the Republic and the fiscal agent. The order of the minister of finance of the Republic directing any portion of said balance to be paid out shall, when accompanied by the written approval thereof of the fiscal agent, be sufficient authority to the trustee to make such payments.

In making the above payments the trustee shall first dispose of the \$—— in cash constituting a part of the general fund. After said cash sum shall have been exhausted the trustee shall, upon written request of the minister of finance of the Republic, deliver to the fiscal agent, for sale, or for the purpose of obtaining a loan thereon, all or such portion of the bonds constituting the balance of the general fund as the minister of finance may direct, subject to the limitations established in this contract as to the amount of bonds to be sold and as to the time of any such sale; the net proceeds of such sale or loan shall be deposited with the trustee, who shall thereupon apply said proceeds as hereinbefore stated.

ARTICLE EIGHTH.—*Concerning the trustee and the fiscal agent.*

APPOINTMENT OF TRUSTEE AND FISCAL AGENT.

1. The Republic hereby appoints —— Trust Company, trustee for the bondholders and transfer agent of the bonds, and hereby appoints Brown Brothers & Company and J. & W. Seligman & Company, jointly, fiscal agent of the Republic hereunder, in the United States of America and in Europe, with full

power to appoint agents, in the United States and in Europe or either, to act for it in respect hereof; and the ——— Trust Company and Brown Brothers & Company and J. & W. Seligman & Company, respectively, accept such appointments. The Republic covenants that during the life of the bonds the Republic will at all times maintain in the city of New York, United States of America, a fiscal agency, and also a transfer agency of the bonds, and any successor to the ——— Trust Company as trustee, and any successor to Brown Brothers & Company and J. & W. Seligman as fiscal agent shall always be a trust company carrying on business in the borough of Manhattan, in said city, and having a capital and surplus aggregating at least \$2,000,000.

APPOINTMENT OF AGENTS AND DELEGATION OF POWERS.

2. The trustee and the fiscal agent, respectively, in the execution of the trusts and duties hereunder may at any time, instead of acting personally, employ and appoint an agent or agents, attorney or attorneys, substitute or substitutes, to transact all business and to do all acts required to be done by them or either of them hereunder, or may delegate to any person or persons all or any of the trust powers and discretions vested in them respectively by this contract, and any such delegation may be made upon such terms and conditions and subject to such regulations, including power to subdelegate, as the trustee or the fiscal agent may respectively think fit.

RESPONSIBILITY AND LIABILITY OF TRUSTEE AND FISCAL AGENT.

3. Neither the trustee nor the fiscal agent shall be answerable for the default or misconduct of any agent, attorney, bank, or banker appointed or selected by them in pursuance hereof if such agent, attorney, bank, or banker shall have been selected with reasonable care, or for anything whatever in connection with this trust, except for their own willful misconduct or gross negligence.

ACTION TO PROTECT BONDHOLDERS.

4. The trustee and the fiscal agent, or either of them, may at any time and from time to time take such steps as they deem proper for the enforcement of the provisions hereof and for the protection of the rights of the bondholders hereunder.

POWERS AND DUTIES OF TRUSTEE AND FISCAL AGENT.

5. The trustee and the fiscal agent shall, respectively, have, in addition to the rights, powers, and duties conferred by law and otherwise by this instrument, the following rights, powers, and duties:

(a) Each of them shall, from time to time, receive all such sums as shall be paid to them respectively in accordance with the said convention or with this contract, whether out of the railroad or customs revenues or otherwise, by the Republic or for its account, and shall use and apply in the manner herein authorized the moneys received by them respectively; and, so far as such moneys so received shall suffice therefor, they shall conduct the service of the loan in accordance with the convention and with this contract and with the provisions of the bonds.

(b) They may, subject to the said convention and to the express terms of this contract and of the bonds, act in accordance with the written order of the minister of finance of the Republic, and the order of the minister of finance as aforesaid shall be full protection to the fiscal agent and the trustee, or either of them, for action in accordance therewith.

(c) The trustee and the fiscal agent shall each keep in the city of New York accounts of their respective acts in connection with this loan, in gold coin of the United States of America, and statements of such accounts shall be rendered by the trustee and the fiscal agent, respectively, to the minister of finance of the Republic and to the Department of State of the United States at the expiration of each 12 months and at such other times as may be requested by either of the two Governments. From time to time, as requested, the trustees shall also render to the Republic itemized statements of the expenditures incident to the service of the loan, together with copies of the vouchers covering such expenditures. The trustee and the fiscal agent shall not, without the approval of the minister of finance of the Republic, incur in the service of the loan in any one year expenses in excess of \$——— in the case of the fiscal

agent and \$—— in the case of the trustee. The aforesaid accounts shall be kept in separate books and the Republic shall have the right at any reasonable time to examine and make extracts from said books.

(d) Statements of account rendered by the fiscal agent and by the trustee may be transmitted to the Republic in any manner in which by this contract notice may be given to the Republic, and shall be conclusive on the Republic, save as specific objection thereto in writing by the Republic shall be received by the fiscal agent or by the trustee, as the case may be, within 90 days after the delivery of any statement of account to the Republic.

(e) The fiscal agent and the trustee shall only be chargeable for such sums as may be received by them respectively from the Republic or for its account. They will each allow interest at the rate of 2 per cent per annum on the average daily credit balances in accounts representing all their respective receipts and disbursements, including, in the case of the trustee, all moneys held in the sinking fund, which interest shall be added to the sinking fund, and the fiscal agent and the trustee shall not be charged or chargeable with interest except as aforesaid. In the custody of moneys held by the trustee, it shall be under the same liability as for trust deposits, and in the custody of moneys held by the fiscal agent it shall be liable as a banker.

COMPENSATION OF TRUSTEE AND FISCAL AGENT.

6. The trustee and the fiscal agent shall each be entitled to reasonable compensation for all services rendered by them or either of them in the execution of the trusts and duties hereby created.

RESIGNATION AND REMOVAL OF TRUSTEE AND FISCAL AGENT AND APPOINTMENT OF THEIR SUCCESSORS.

7. The fiscal agent and the trustee or either may withdraw and resign by giving notice to the Republic of such intention, specifying the date when it is desired such withdrawal shall take effect, which shall be not less than four months after such notice to the Republic shall have been given. The fiscal agent and the trustee, or either, may be removed at any time by an instrument or instruments in writing executed by the holders of a majority in amount of the bonds, with the written approval of the Republic. In case the fiscal agent or the trustee, or both, shall be so removed from or shall resign, or shall from any cause become incapable of acting, or a vacancy from any cause shall occur in the office of fiscal agent or the office of trustee, a successor or successors to the fiscal agent or trustee so ceasing to act shall, with the approval of the United States of America, be appointed by the Republic by designation in writing under the hand of the minister of finance of the Republic, a counterpart whereof shall be delivered to such successor or successors, respectively, and a counterpart filed in the Department of State of the United States of America. Until such appointment by the Republic, the United States of America shall appoint a successor or successors by an instrument in writing executed under the hand of the Secretary of State of the United States, which shall be delivered to the successor or successors so appointed and a counterpart thereof filed in the said Department of State. Any successor subsequently appointed such fiscal agent or trustee by the Republic, by and with the approval of said United States, shall immediately supersede any successor so appointed by said Secretary of State of the United States.

All the provisions of this paragraph relative to the withdrawal, resignation, or removal of the fiscal agent and to the appointment of a successor shall severally apply to each of the two firms appointed fiscal agent hereunder, except that in case of the withdrawal, resignation, or removal of either of said firms, the remaining firm shall be fiscal agent, and so long as such firm shall continue fiscal agent, no successor to the firm which may have thus withdrawn, resigned, or been removed shall be appointed.

ARTICLE NINTH.—*Notices.*

Any statement, notice, request, or other communication, under this contract, from the fiscal agent or from the trustee to the Republic, shall be in writing, addressed "El Ministro de Hacienda de la República de Nicaragua," and shall be deemed to have been duly given if delivered at the legation of the Republic

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in Washington, D. C., or at the consulate of the Republic in the city of New York, or if deposited in the mails, inclosed in a sealed, postage prepaid package addressed as above to Managua, Nicaragua. Service of such notice or other communication shall be deemed complete as of the date of such delivery or as of the date of such deposit in the mails; in each case, however, a duplicate of said statement, notice, request, or other communication shall be delivered to the Department of State of the United States. Any notice or other communication from the Republic to the fiscal agent or to the trustee shall also be in writing and shall be sufficiently given if addressed to such fiscal agent or trustee, respectively, and delivered at the offices of the two firms constituting such fiscal agent or at the office of the trustee, respectively, in the city of New York.

ARTICLE TENTH.—*General provisions.*

NONRECOGNITION OF CLAIMS.

1. This contract is made exclusively for the benefit of the parties hereto. None of its provisions shall be deemed or construed to create any trust or obligation in favor of the holders or owners of the obligations or indebtedness of the Republic now outstanding, or of any present outstanding claims, or of any concessions which may have been granted by the Republic.

CONTRACT NOT TO BE AFFECTED BY CHANGE OF MEMBERSHIP IN FIRMS.

2. The provisions of this contract shall apply to and in respect of the firms of bankers constituting the parties of the third part as such firms shall from time to time be respectively constituted without reference to any change in membership.

TO BE CONSTRUED AS A NEW YORK CONTRACT.

3. This contract shall be deemed to be and shall be construed as a New York contract made for the benefit and security of the holders, from time to time, of the bonds and the appurtenant coupons.

LANGUAGE OF CONTRACT.

4. This contract may be executed in both the English and Spanish languages; but in construing this contract the original in the English language shall govern.

FILING OF CONTRACT.

5. Within 10 days after the execution of this contract the Republic shall file with the Department of State of the United States of America an original executed counterpart of this contract. This contract shall take effect when the said convention shall have been ratified and exchanged and this contract shall have been ratified by the Congress of the Republic.

In witness whereof the Republic has caused this contract to be subscribed in representation of the Republic by _____ of the Republic, and the _____ Trust Company has caused this contract to be subscribed in its name by its president, and said Brown Brothers & Company and said J. & W. Seligman & Company have hereunto set their hands and seals the day and year first above written.

This contract is so executed in quadruplicate in English and Spanish, one original in each language, for filing with the Department of State of the United States, and one original for each of the parties hereto.

PURCHASE CONTRACT.

Agreement made at the city of New York, this _____ day of _____, 1911, between the Republic of Nicaragua, hereinafter called the "Republic," party of the first part, and Brown Brothers & Company and J. & W. Seligman & Company, copartnerships, doing business in the city of New York, hereinafter called the "Bankers," parties of the second part;

Whereas the Republic desires to refund, adjust, and settle its external and internal indebtedness and to place its finances upon a sound and stable basis,

in order to secure the future development of the natural and economic resources of the Republic; and

Whereas, in order to secure strength and security in the administration of the Government and to promote the tranquillity, prosperity, and progress of the nation, and to furnish proper security for an issue of bonds, the Republic has entered into a convention with the United States of America, dated ———, 1911, a copy of which is hereto annexed, marked "Schedule A"; and

Whereas, for the purposes aforesaid, the Republic is about to issue its bonds to the aggregate principal amount of \$15,000,000 gold, to be known as the five per centum customs administration sinking fund gold bonds of the Republic, secured by said convention, and described in and further secured by a certain contract between the Republic, the ——— Trust Company, as trustee, and Brown Brothers & Company and J. & W. Seligman & Company, as fiscal agents, a copy of which contract is hereto annexed, marked "Schedule B"; and

Whereas the Republic desires to sell \$12,000,000, par value, of said bonds, and the bankers desire to purchase the same upon the terms hereinafter stated; and

Whereas the Republic also desires the cooperation of the bankers in connection with the establishment of a bank in Nicaragua, also in connection with the introduction and maintenance of a stable currency system in that country, and also in connection with the construction of certain lines of railroad as hereinafter set forth;

Now, therefore, in consideration of the premises and of the mutual covenants and undertakings hereinafter contained, it is hereby agreed as follows:

First. The Republic shall forthwith execute and deliver the said contract, "Schedule B," and, by or before the first day of September, 1911, shall (1) procure the due ratification by the Congress of the Republic of the convention "Schedule A," of the contract "Schedule B," and of the present agreement; (2) procure the enactment by the Republic of such legislation as in the opinion of counsel for the bankers may be required for the complete authorization and legalization of this agreement and of the proposed bond issue; (3) take such further action as may, in the opinion of said counsel, be necessary for the legal issue of said bonds upon the terms of said contract "Schedule B"; (4) issue and deliver to the trustee under said contract "Schedule B," for authentication in the manner and form provided in said contract, its five per centum customs administration sinking fund gold bonds to the aggregate principal amount of \$15,000,000, gold coin of the United States of America, of such denominations and in such amount of each denomination as the bankers may designate.

Second. If the convention "Schedule A" shall have been duly ratified by the Congress of the Republic and by the Senate of the United States, and ratifications exchanged by both contracting parties thereto by or before September first, nineteen hundred eleven, and if all of the provisions of the foregoing article first shall also have been complied with by or before said first day of September, nineteen hundred eleven, but not otherwise except in the full discretion of the bankers, the bankers shall within 60 days after such complete compliance, upon a day to be fixed by them, purchase from the Republic, and the Republic shall thereupon sell to the bankers, \$12,000,000, par value, of said bonds, which shall thereupon be delivered to them by the trustee, and in consideration of such purchase, and in consideration also of all undertakings of the Republic hereunder, the bankers shall pay to the trustee, for account of the Republic, the sum of \$—— in cash, with interest thereon at five per cent adjusted to date of payment. Upon the payment of said sum as aforesaid, the trustee shall deliver its receipt, which shall be a full acquittance to the bankers; the sum of \$—— and interest to be paid as aforesaid shall be held and applied by the trustee under and in accordance with the provisions of said contract "Schedule B."

Third. The \$12,000,000 of bonds thus purchased shall be the absolute property of the bankers, to be sold or otherwise disposed of by them as they may deem best. The Republic shall, in consideration of such purchase, assist the bankers in any such sale and in any public offering of said bonds, and to this end shall promptly, upon the request of said bankers, cause to be signed by its minister of finance or by some other qualified officer or person, a prospectus or prospectuses of the issue, in form to be approved by the bankers; and the Republic, from time to time, as and when requested, shall promptly furnish the bankers with all information and documents which in said bankers' opinion may be necessary or desirable for the purpose of facilitating the sale of said bonds or of listing the same on any of the stock exchanges of the world.

Fourth. The \$3,000,000 of bonds remaining unsold shall be held by the trustees under the provisions of said contract "Schedule B," and shall not be disposed of or delivered by the trustee except in accordance with the following provisions:

(1) Except with the approval of the bankers, none of said bonds shall be sold or offered for sale within two years from and after the date of the delivery to the bankers of the \$12,000,000 of bonds to be purchased by them hereunder.

(2) After the expiration of said two years, or earlier with the approval of the bankers, the Republic may, but only through the bankers, offer for public sale such of said unsold bonds as it may determine.

(3) In case of any such further sales, if the then market price of said bonds in the city of New York should be ——— or more, the bankers shall have the privilege, within twenty (20) days after written notice to them from the minister of finance of the Republic of its purpose to offer any of such bonds for sale, of purchasing the bonds which may be so offered, at such market price, less three (3%) per cent commission.

(4) If at the time of any such proposed further sales within five years from the date hereof the market price of said bonds in New York City should be less than ——— per centum of their par value, the bankers shall purchase the same at such ——— per centum, provided (a) that the Republic shall not then be in default in the payment of any interest coupon or installment on account of sinking fund as provided in said contract "Schedule B"; (b) that the Republic shall not then be at war with any foreign power, or in a state of domestic revolt; and (c) that the bankers shall not be obligated to purchase more bonds than may be sufficient, at the price mentioned, to furnish whatever cash may in the opinion of the bankers be at that time required for continuing the construction of the new railroads hereinafter mentioned, and for any of the other purposes for which bonds are reserved in said contract "Schedule B." Upon the making of any such purchase the bankers shall have twenty (20) days after the receipt by them of written notice from the Republic calling upon them to make said purchase, within which to pay the purchase price, and the same shall be paid by them to the trustee under said contract "Schedule B," simultaneously with the delivery to them by said trustee of the bonds so purchased.

(5) The Republic, by its minister of finance, and the bankers shall from time to time join in the proper written orders or requests to or upon the trustee for the disposition of said \$3,000,000 of bonds in accordance with the foregoing provisions.

Fifth. Immediately after the purchase of the \$12,000,000 of bonds as hereinbefore provided the bankers shall cause to be incorporated, under the laws of one of the States of the United States to be selected by them, a banking corporation, hereinafter called the "Bank," with an authorized capital stock of \$5,000,000, United States gold coin, and with such banking and other powers and in such form as the bankers may determine. Fifty-one per centum (51%) of the capital stock of said bank at any time issued and outstanding shall control all its operations.

At or immediately following its incorporation the bank shall receive a concession from the Republic substantially in the form hereto annexed, marked "Schedule C," which the Republic hereby agrees to grant to it. The bank shall be the depository of all Government funds in Nicaragua and the fiscal and disbursing agent of the Government in that Republic; it shall enjoy freedom from taxation of all kinds, and shall have the exclusive right to issue bank notes and to introduce and maintain the currency system hereinafter mentioned.

The bank shall begin business with a subscribed capital of \$500,000, for which stock shall be issued, and thereafter further issues of stock may from time to time be made as and when the bank itself may determine.

For a period of thirty (30) days from and after the first meeting of the incorporators of said bank, the bankers shall have the right, at their option, to subscribe at par for 51% of said first issue of \$500,000 of stock; in case they shall elect to so subscribe, the bankers shall have the further right, at their option, to subscribe from time to time at par for 51% of any further stock of said bank as and when the same may be issued; such further options shall in each case be exercised within thirty days from and after the respective dates of the bank's resolutions authorizing such further issue or issues.

In case the bankers shall subscribe for 51% of the first issue of the bank's capital stock as aforesaid, the remaining 49% of such stock shall be subscribed for by the Republic at par. The Republic shall also subscribe at par for 49%

of any further issue or issues of the bank's capital stock. All subscriptions to the bank's capital shall be paid for by the respective subscribers in United States gold coin, or its equivalent, upon the issue to them of the corresponding certificates of stock.

In case the Republic should at any time desire to dispose of all or any part of its said stock, it shall first offer the same to the bankers, who shall have the right, at their option, at any time within 30 days after such offer, to purchase the same or any part thereof at the same price and upon the same terms and conditions as may be offered by other intending bona fide purchasers.

In case the bankers shall elect not to purchase 51 per cent of the first issue of the bank's stock as aforesaid, the Republic shall cause the expenses which the bankers may have incurred in connection with the incorporation of said bank to be paid forthwith by the trustees for account of the Republic, out of the "banking and currency fund" provided for in said contract "Schedule B." In case the bankers shall elect to purchase said stock, the actual expenses shall be for account of the bank, and shall be paid by said bank when incorporated.

Sixth. Immediately after the purchase of the \$12,000,000 of bonds as hereinbefore provided, the bankers shall make a careful study of the currency conditions and requirements of Nicaragua, and shall prepare and submit for approval to the Republic and to the Secretary of State of the United States a plan for introducing and maintaining a suitable currency system in that country.

Upon the completion and submission of said plan, as aforesaid, the Republic shall cause the actual expenses which the bankers may have incurred in connection therewith to be forthwith paid by the trustee, for account of the Republic, out of said "banking and currency fund."

In case of the approval of said plan, as aforesaid, the same shall be adopted by the Republic; and in that case said plan, including the issuing of notes and paper currency of all kinds, and the coinage of gold, silver, or other metals, shall be put into effect through the instrumentality of the bank, and the cash capital which may be required for that purpose and generally for the carrying out of said plan and for all expenses connected therewith shall be provided by the Republic out of the "banking and currency fund" provided for in contract "Schedule B." For the services to be rendered by the bank in that connection it shall receive whatever profits may result from the operation and an additional compensation to be agreed upon.

Seventh. As soon as practicable after the purchase of the \$12,000,000 of bonds, as hereinbefore provided, the bankers shall send to Nicaragua such engineers and experts as they may select, to make surveys for a proposed railroad from some point on or near the Atlantic coast, preferably from Rama, on the Escondido River, to connect with the Great Lake of Nicaragua, or, preferably, with the present railroad from Corinto to Granada, and also for a railroad from some point on such line to Matagalpa, with such branch or branches as the bankers may deem desirable, and to report thereon to the bankers with such maps, surveys, estimates of cost of construction, and recommendations as the bankers may require. Said surveys shall be begun within 90 days after said purchase of bonds, and shall be completed as expeditiously as possible. The Republic will, as far as possible, facilitate the work of such surveys by furnishing to the bankers such reports, maps, and information as it may have, or as it may be able to obtain, regarding such proposed railroads and generally regarding the character, resources, products, and needs of the regions which such proposed railroads are intended to serve.

Upon receipt by the bankers of such engineers' complete and final reports, estimates, surveys, and maps, they shall themselves prepare a report thereon, with such recommendations as they may think proper regarding the route or routes to be adopted and generally regarding the character and estimated cost of construction and equipment. Said report, accompanied by copies of the reports, estimates, surveys, and maps prepared by the engineers and experts, shall be submitted to the Republic and to the Secretary of State of the United States for their approval.

After said report shall have been approved by the Republic and said Secretary of State, the bankers shall have an option of 30 days within which to elect whether or not they will organize a company, hereinafter called the "Railroad Company," for the purpose of constructing and operating said railroads. In case the bankers shall elect to organize such "Railroad Company," said railroads shall be constructed under contracts to be made by the "Rail-

at 6/27/19
see elsewhere for further

road Company." Such construction contracts shall be subject to the approval of the Secretary of State of the United States and of the minister of finance of the Republic. In case the railroads shall be constructed as aforesaid, the expenses incurred by the bankers in connection with the reports, surveys, and maps above mentioned shall be for account of said "Railroad Company" and shall be paid by it. If the bankers shall elect not to organize said "Railroad Company," the Republic shall cause said expenses to be paid forthwith by the trustee, for account of the Republic, out of the "railway fund" provided for in said contract, "Schedule B."

If the bankers shall elect to organize said "Railroad Company," they shall cause the same to be incorporated under the laws of one of the States of the United States, to be selected by them, with such powers, and in such form as the bankers may determine, inter alia, the power to acquire railroad and other franchises and concessions in Nicaragua and to construct, own, and operate railroads and other lines of communication in that country. All questions relating to the organization of said "Railroad Company," including the amount and character of its capital stock and of its bonded or other indebtedness, shall be determined by the bankers. As soon as the said "Railroad Company" shall have been incorporated, the Republic shall grant to it a concession substantially in the form annexed hereto, marked "Schedule D."

If the "Railroad Company" shall be organized as aforesaid, the cost of constructing and equipping said railroad, including the cost of terminal facilities and all appurtenances, including also the cost of the reports, surveys, and maps above mentioned, and including interest during construction upon payments made for that purpose, shall be paid, one-half thereof by the Republic and the other half by the bankers. The amount thus chargeable to the Republic shall be paid for its account by the trustee out of the "railway fund" provided for in said contract, "Schedule B," and in consideration thereof the railroad company shall issue to the Republic noncumulative 5 per centum preferred shares of its capital stock, being its entire issue of such stock, to an amount equal to the sums so paid by said Republic.

In consideration of the one-half to be paid by the bankers as aforesaid, and also as part consideration to them under this agreement, the railroad company shall issue and deliver to said bankers (a) its first-mortgage six per centum bonds to an aggregate amount equivalent at 85 per centum of their par value to the sums so to be paid by said bankers, and (b) shares of the common stock of said railroad company, full paid and nonassessable, to an amount which at par shall represent not less than the par value of the bonds so to be delivered, and which stock shall in any case be sufficient to vest in the bankers the control of the railroad company.

If the railroad company should be organized as aforesaid, and if the Republic should at any time desire to dispose of its present railroad from Corinto to Granada, it shall first offer the same to the railroad company, which shall have the right, at its option, at any time within 30 days after such offer, to purchase the same at the same price and upon the same terms and conditions as may be offered by other intending bona fide purchasers.

If the bankers shall elect not to organize the railroad company as aforesaid, the Republic may undertake such construction for its own account or may itself organize a railroad company for that purpose.

Eighth. The Republic shall pay the stamp or other taxes or duties to which, under the law of the Republic, this agreement is or may be subject.

Ninth. The Republic shall procure all such legislation as may be required for the complete authorization and legalization of this agreement, for the establishment and operation of the bank, for the introduction and maintenance of the proposed currency system, for the establishment and operation of the railroad company, for the issue of railroad mortgage bonds, and for the security thereof under a trust agreement, and generally for the carrying out of all the purposes of this agreement.

Tenth. Any notice under this agreement by the bankers to the Republic, including all notices regarding the various rights of option secured to them hereunder and the communication of any and all reports and recommendations, shall be in writing, addressed "El Ministro de Hacienda de La República de Nicaragua," and shall be deemed to have been duly given if delivered at the legation of the Republic in Washington, District of Columbia, or at the consulate of the Republic in the city of New York, or, if deposited in the mails, inclosed in a sealed, postage-prepaid package, addressed as above to Managua, Nicaragua. Service of such notice shall be deemed complete as of the date of such

delivery or as of the date of such deposit in the mails; in each case, however, a duplicate of said notice shall be delivered to the Department of State of the United States. Any notice to the bankers shall be given in writing addressed to Brown Brothers & Company and to J. & W. Seligman & Company, and delivered at their offices in the city of New York.

Eleventh. This agreement shall be deemed to be, and shall be construed as, a New York contract, and time is of the essence of this agreement. It shall be executed both in the English and Spanish languages, as shall also any other document or documents prepared in connection with the bonds; but, in construing this agreement or any other such document, the original in the English language shall govern. An original executed counterpart of this agreement shall forthwith be filed with the Department of State of the United States of America. The provisions of this agreement shall apply to and in respect of the firm of bankers constituting the parties of the second part as such firms shall from time to time be constituted, without reference to any change in membership.

Twelfth. In case this agreement shall not become effective because of the failure of the Senate of the United States to ratify before September 1st, 1911, the convention "Schedule A," the bankers shall have the right at their option to continue the present agreement in force pending the approval or rejection of said convention by said Senate for a period not exceeding one year from and after said first day of September, 1911, with the right to the bankers at their option to terminate said contract at any time during said period. This provision shall in no way alter or affect the obligation of the Republic to perform the various acts specified in paragraph first above, or any other obligations of the Republic hereunder.

Thirteenth. All the options granted hereunder to the parties of the second part are intended for their joint benefit, and in each case such options shall be exercised jointly by both firms; except that, if in the case of any particular option either of said firms should elect not to avail itself of the option privileges, such option may be exercised by and shall inure to the benefit of the other firm.

In testimony whereof the parties hereto have hereunto set their hands, etc., etc.

Mr. MALLET-PREVOST. As bearing somewhat upon the Ethelburga fund—

Senator SMITH of Michigan. Right there let me ask you, do they include the supplemental loan agreement of March 26, 1912?

Mr. MALLET-PREVOST. No; that comes later. I am coming to that. As bearing on the situation of the Ethelburga matter I would like to read just one or two extracts from this proposed contract, but I do not want to enter into that fully until a few moments later, with your permission. After speaking of the proceeds of the loan and what shall be done with them it says—

Senator SMITH of Michigan. What are you reading from?

Mr. MALLET-PREVOST. From one of these proposed contracts which we submitted with the bid.

Senator SMITH of Michigan. These are the contracts which you prepared?

Mr. MALLET-PREVOST. Yes, sir [reading]:

The said fund shall be divided into seven distinct funds, to be known, respectively, as hereinafter designated, and to consist of the cash and bonds hereinafter respectively assigned to each, to wit:

(a) The Ethelburga fund, which shall consist of \$6,200,000 in cash.

Now, speaking on that fund later, the contract says:

Whereas certain differences have arisen between the Republic and the Ethelburga Syndicate, of London, Limited, with reference to an issue of bonds of the Republic made pursuant to the provisions of a contract dated January 19, 1909; and

Whereas the Republic desires to adjust said differences and to fully protect all bona fide purchasers and holders of bonds duly issued under said contract:

Therefore the Republic, as a part of the consideration hereunder, hereby irrevocably authorizes the fiscal agent on its behalf to do whatever in the opinion of said fiscal agent may be fair, just, lawful, or equitable in the adjustment of said differences with the Ethelburga Syndicate, Limited, and in the purchase or redemption of all bonds issued pursuant to said contract of January 19, 1909; to which end, and with a view to the settlement and adjustment of the entire controversy, the fiscal agent may make, execute, and deliver such agreements of compromise and settlement as it may deem proper either with the Ethelburga Syndicate or with others; may purchase or redeem any or all bonds issued pursuant to said contract; may discharge, redeem, or convert the prior debts or loans of the Republic mentioned in said contract of January 19, 1909, or may provide for their discharge, redemption, or conversion; or may, in its absolute discretion, make use of any or all legal remedies available for the enforcement of the rights of the Republic in the premises; or may submit any or all questions which have arisen or may arise in the premises to arbitration under the provisions of said contract of January 19, 1909, or otherwise.

Senator HITCHCOCK. When was that Ethelburga Syndicate formed?

Mr. MALLET-PREVOST. It was formed some years prior. I will enter into that if you wish me to. I am coming to it, but I would like to get it in its proper relation so that you can see what the attitude of the bankers was.

This was the first proposition, and \$6,200,000, which represented about the par value, was provided, or intended to be provided, out of this fund so that Nicaragua, or the bankers representing Nicaragua, should be able to deal with that situation in the proper way. Just what that situation was and how it was to be dealt with I will come to a little later.

Senator HITCHCOCK. The bankers were to deal with it, and not the Government?

Mr. MALLET-PREVOST. The bankers, and not the Government. Therefore, this authority was given to the bankers who were to act on behalf of the Republic.

Senator ROOT. Was to be given?

Mr. MALLET-PREVOST. Yes; was to be given. That proposition, as I stated, was submitted to Mr. Wands on January the 23d. He came to New York a few days later and told me that he had decided to advise Nicaragua to accept it, and he asked me if I would prepare for him the draft of a cablegram which he could send to the Nicaraguan Government, and which would state the substance of our bid. I did so on July 3, and sent it to him. This was what I suggested and what I believe was sent:

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DRAFT OF SUGGESTED CABLEGRAM.

Brown Brothers & Company and J. & W. Seligman & Company propose to purchase twelve million five per centum bonds maturing in about thirty-seven years, at 90½, or, say, \$10,860,000, and to purchase remaining three million at same rate or better, after two years and within five years, whenever money is needed for railroad and improvements. Government shall not pay interest on bonds until after they are paid for.

Printing, engraving bonds, listing on exchanges, foreign stamp taxes, trustee's issue expense, all of which naturally chargeable against borrower, are estimated at \$450,000, but will, under the contract, be assumed by bankers on payment to them of estimated amount, namely, \$450,000; said payment to be made out of the \$10,860,000 cash proceeds of sale.

Balance of cash will be deposited in Trust Company, divided into seven funds, as suggested by Wands, on which interest will be allowed. Bankers will advance \$500,000 to Nicaragua immediately after contract becomes effective, without waiting for delivery of bonds.

Sinking fund will be one per centum annually on amount actually issued and will begin immediately. When total customs receipts exceed \$1,500,000, sinking fund will be increased by one-half of such excess. Nicaragua may retire bonds at 102½. Collector customs, after paying collection expenses, will remit monthly to trustee all customs until full year's interest and sinking fund charges have been accumulated, after which balance will go to Nicaragua, except that during a number of years a reserve fund, enough to meet one year's charges, will be gradually accumulated, upon which, however, Government will receive interest.

Bonds will be secured under convention by customs receipts and new railroad, and be free from taxes in Nicaragua.

That was the convention that was then in contemplation—no; it had been signed. It was signed on June 6. This was in July.

Senator SMITH of Michigan. What year was that?

Mr. HALLET-PREVOST. 1911. That was the Knox-Castrillo Convention. [Continuing reading:]

BANKERS WILL ACT AS FISCAL AGENTS.

Bankers will, without compensation, assist Nicaragua in negotiating settlement with Ethelburga Syndicate; all resulting benefits to be for Nicaragua.

Bankers will incorporate bank under concession to be granted by Nicaragua and submit plan for currency reform. Bank shall have authorized capital of \$5,000,000, beginning business with \$500,000. At bankers' option they may subscribe 51 per cent of capital, Nicaragua subscribing remaining 49 per cent, to be paid out of proceeds of loan.

Railroad will be constructed either for account of Nicaragua, or bankers may, at their option, organize railroad company and furnish one-half capital required, Nicaragua furnishing other half, payable out of proceeds of loan, Nicaragua receiving preferred stock therefor and bankers receiving common stock and bonds.

If I said January 23 before, will you change that to June 23, with reference to the date of the delivery of the draft contracts to Wands?

That telegram was sent, and no immediate answer came to it; and Mr. Wands, as the term limit, July 7, approached, wanted to get an extension of time and asked the bankers to grant it, so on July 5 they wrote him this letter:

July 5/11-1]

PROPOSED LETTER.

ERNEST H. WANDS, Esq.,

Financial Agent of Nicaragua,

% Department of State of the United States, Washington, D. C.

DEAR SIR: Referring to our letter to you of June 21st last, and complying with your request for an extension of time beyond July 7th, during which the Nicaragua Government may accept the offer made to us, we hereby comply with that request and advise you that the offer made will remain open until further notice.

We wish to give the Nicaragua Government every reasonable opportunity to consider our proposition, but, in the meantime, it is only just to ourselves that we should reserve the privilege of withdrawing the offer at any time prior to its formal acceptance. It is with this express understanding that the present extension is agreed to.

Very truly, yours,

BROWN BROS. & Co.
J. W. SELIGMAN & Co.

Senator HITCHCOCK. Who was then President of Nicaragua?

Mr. MALLET-PREVOST. Diaz was President all the time we had anything to do with the matter.

At that time it was the general belief that the Knox-Castrillo convention would be approved by the Senate, and that it would go into effect, and this bid for the \$12,000,000 of bonds conditioned entirely upon the approval of that convention was expected to become effective early in the fall of 1911. I do not recall, but my impression is that Congress adjourned about this time—maybe in July of 1911. Anyhow it became apparent, either from that fact or because opposition developed in the Senate, I do not remember now—but it became apparent that that convention was not going to be approved as soon as Nicaragua had hoped, and as our bid was absolutely dependent upon its being approved, it became apparent that something would have to be done if Nicaragua intended to carry out any of the plans which were in contemplation, especially the plan for the establishment of a national bank and for reforming the national currency.

Senator SMITH of Michigan. Will you pardon me a question right there?

Mr. MALLET-PREVOST. Certainly.

Senator SMITH of Michigan. You corrected a date a few moments ago. You had said January and corrected it to June, 1911?

Mr. MALLET-PREVOST. Yes, sir.

Senator SMITH of Michigan. Senator Hitchcock asked you who was president. The fact is that Estrada laid down the presidency on the 9th of May, 1911.

Mr. MALLET-PREVOST. Then I must apologize. I did not know that fact.

Senator SMITH of Michigan. No; you are correct in your statement. What I want to do is to get this statement in connection with the one that you were working under Diaz. Diaz assumed the presidency, by designation, from May 9, 1911, to December 31, 1912.

Mr. MALLET-PREVOST. All I had in mind was that I know that since we went into this thing whatever dealing we had with any president we had entirely with President Diaz.

Senator SMITH of Michigan. Exactly; but I wanted to have the record show just when Estrada went out and just when Diaz came in, with reference to these contracts.

Mr. MALLET-PREVOST. I accept the correction, and thank you.

* For the reasons which I have stated, and while this bid of the bankers was pending, and not yet accepted, new negotiations started for a smaller provisional loan which would enable Nicaragua to establish a national bank and to reform her currency. That was in July of 1911. Those negotiations as they stood on July 21, 1911, will be explained by a letter which on that date Mr. James Brown, of Brown Bros. Co., wrote to Mr. Wands. He says:

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JULY 21ST, 1911.

ERNEST H. WANDS, Esq.,

Financial Agent of Nicaragua.

c/o Department of State of the United States, Washington, D. C.

DEAR MR. WANDS: In our conference yesterday I understood you desired Messrs. Seligman and my firm to commit to paper an outline of the proposal which we discussed with you in our interview of Tuesday.

In the absence of Mr. Mallet-Prevost we do not feel that we can do so. I understand, however, that you wish the information at the earliest possible moment; and, therefore, in anticipation of a more formal communication, which can be sent later if you desire it, I will personally endeavor to outline the proposal discussed.

So as to enable the legislature of Nicaragua to act without waiting for the confirmation of the treaty by the United States Senate, Messrs. Seligman and my firm expressed themselves as being willing to negotiate with the Republic for a loan for a million and a half, to mature in one year; and as soon as the loan was arranged to take up the reformation of the currency and the negotiation with the Ethelburga Syndicate. In effect, to advance the above amount of money to the Republic of Nicaragua in anticipation of the carrying out of the program outlined in our recent bid.

In consideration of our making this advance in anticipation of the confirmation of the treaty by the Senate, the terms of the convention were to be embodied in the contract; and the provision for the collection of the customs was to become operative at once, as part security for the temporary loan, but to be in charge of an appointee of the President of the United States; and the two firms were to have an option on the \$15,000,000 bonds on the terms of our bid now before you, to run for a reasonable period if and after the convention was ratified.

If the treaty was ratified at any time within a year from the date of the temporary loan, and the bankers exercised the option, the effect would be then to carry out the program outlined in our bid and now awaiting action by the United States Senate.

If the treaty was not ratified within the above period, the bankers express themselves as being willing to negotiate for a loan without a convention, provided, terms being equal, they should have preference over other bidders.

There seem to us a number of distinct advantages to Nicaragua in this arrangement:

First. Nicaragua would receive all the money it can now use in the outlined program, and would save interest on the amount not now borrowed (nor needed); and this amount would be available for their current expenses. This saving amounts to a large sum.

Second. The benefits to be derived from the reformation of the currency would not be dependent upon the ratification of the treaty by the United States Senate.

Third. Confidence at home and abroad, which is expected to result from the collection of the customs by an appointee by the President of the United States, would be immediate.

Fourth. Increase of revenue expected from the increase in business would be immediate.

Fifth. Confidence, owing to the reform of the currency, would not be contingent upon the action of the United States Senate.

Sixth. Increase in revenue would be accelerated for the same reason.

Seventh. The negotiation with the Ethelburga Syndicate could be taken up at once on behalf of the Republic. And the fact that the funds for the payment of the Ethelburga bonds had been only tentatively provided should give Nicaragua obvious advantages in negotiating with this syndicate. Anything saved as a result of such negotiation would inure to the benefit of Nicaragua.

Yours, very truly,

JAMES BROWN.

That is to say, if Nicaragua did not actually have in pocket the \$6,200,000 available for any settlement with the Ethelburga Syndicate, but if the negotiations were carried on without Nicaragua having any visible means of paying these bonds off, it would put Nicaragua at an advantage for the purpose of negotiation.

SEÑATOR HITCHCOCK. Is that not a very reason why this treaty, or why a condition of the ratification of this treaty, should be a negotiation with the Ethelburga Syndicate now?

MR. MALLET-PREVOST. That has all been passed. We have got that settled long ago. I will tell you just how that has been disposed of. That was disposed of during that same year——

THE CHAIRMAN. You are coming to that?

MR. MALLET-PREVOST. Yes, sir; I am coming to that.

SEÑATOR HITCHCOCK. I am very anxious to hear about that.

MR. MALLET-PREVOST. I went abroad the 2d day of August, 1911, and I was not here during that time. The treasury-bills agreement,

which provided for this \$1,500,000 specifically along the lines of the letter which I have just read, was concluded and was signed on September 1, 1911. During that—

Senator HITCHCOCK. What is the treasury-bills agreement?

Mr. MALLET-PREVOST. Substantially what I have said here. That is to say, they loaned them \$1,500,000 for establishing a bank and for reforming the currency and also undertook to negotiate with the Ethelburga Syndicate.

(The treasury-bills agreement, with the schedules thereto, appears in the appendix.)

Secretary BRYAN. I was called out of the room. Did that provide for the option on the railroad?

Mr. MALLET-PREVOST. Not yet. That comes a little later.

Senator SMITH of Michigan. This is the treasury agreement?

Mr. MALLET-PREVOST. The treasury-bills agreement of September 1, 1911.

Senator SMITH of Michigan. Is that it right there [handing witness a paper]? Is that the one to which you refer?

Mr. MALLET-PREVOST. No, sir; that is two years later. That is another agreement.

Senator SMITH of Michigan. This is what year?

Mr. MALLET-PREVOST. That is 1911.

Senator SMITH of Michigan. All right.

Mr. MALLET-PREVOST. As I say, I was away during August and the matter was attended to by Mr. William E. Curtis, one of my partners, and, from the statements he made to me and from the records in my own office, I can say that the negotiations of that Treasury bills agreement of 1911 were carried on with Mr. Wands as financial agent, with Dr. Castrillo, and after constant conferences with the State Department, with Mr. Dawson, who was then living, with Mr. Doyle, who was then connected with the Latin-American Bureau, and with Mr. Clark, who was solicitor for the department.

As the matter took definite form, at the suggestion of the State Department, New York counsel were employed on behalf of Nicaragua to examine the papers, and they did so. Messrs. Dexter, Osborn & Fleming, of No. 71 Broadway, were retained as counsel on behalf of Nicaragua. They were furnished with all the documents in the matter. They had constant conferences with my office and approved of the contract of September 1, 1911, as it was finally executed.

I think it is important to bring that fact out, that Nicaragua was not only looking into the thing through their own agents but was protected in the first place by the State Department itself in the negotiations, and in the second place by American counsel who, on the recommendation of the State Department, were retained for that purpose.

There are a number of letters here, some to Mr. Wands, some to Mr. Fleming of the law firm I have mentioned, and some to Mr. Doyle, which passed during August, and which have more or less bearing on this subject. I do not think they are sufficiently important for me to take up the time of the committee in reading them, but I would be very glad to furnish copies for the files. So that I will pass these, as I have other matters of considerably more importance.

(The letters referred to appear in the appendix as follows: Letters Curtis, Mallet-Prevost, and Colt to Mr. Wands dated August 15, 1911; to Mr. Fleming dated August 19, 1911; to Mr. Doyle dated August 19, 1911, and another letter to Mr. Doyle dated August 29, 1911; also a letter from Wands to the bankers dated August 11, 1911.)

Senator SMITH of Michigan. It is your intention to furnish copies of all correspondence between Wands and Brown Bros., and Wands and Seligman?

Mr. MALLET-PREVOST. You can have it, but if I should undertake to read copies of all we have, you would never get through.

Senator SMITH of Michigan. I just asked the question whether it was to include all the correspondence or only a part of it.

Mr. MALLET-PREVOST. I picked out such correspondence as I thought would be of interest to the Senate committee, but I stand prepared to furnish any and everything else which I have, as do the bankers.

The treasury bills agreement, as I say, was signed on September 1, 1911. That treasury bills agreement, in substance, provided that there should be an issue of treasury bills of \$1,500,000, payable in one year, the interest being at 6 per cent. The bankers bought them at par. That money was to be used, \$100,000 of it as initial capital of the bank; the bank was to be incorporated and to be managed by the bankers, but to belong entirely to Nicaragua. All the stock was issued to Nicaragua and absolutely belonged to it. The balance of the money was to be available for the purposes of the currency formation.

Senator HITCHCOCK. The balance of \$1,500,000?

Mr. MALLET-PREVOST. The balance of the \$1,500,000. The loan was secured—

Senator HITCHCOCK. How was it to be available?

Mr. MALLET-PREVOST. Through the exchange fund; the bankers undertook, at the expense of Nicaragua to engage currency experts whom they were to send to Nicaragua to study the situation. Those experts were to report on a plan which was then to be adopted by Nicaragua, and it was calculated at that time that that amount of money; that is to say, a million and odd thousand dollars, would be sufficient to effect the conversion of the monetary system of Nicaragua, and the bankers were to hold it for that purpose.

Senator HITCHCOCK. Where was the reserve kept?

Mr. MALLET-PREVOST. It was kept temporarily in the United States Mortgage & Trust Co. in New York. When the bankers bought the treasury bills they paid the money over, paid the \$1,500,000 to the United States Mortgage & Trust Co. for the purposes set forth in the treasury bills agreement.

Senator HITCHCOCK. On what basis was the redemption of the Government notes?

Mr. MALLET-PREVOST. They were all to be paid one year after date.

Senator HITCHCOCK. I mean on what basis of exchange?

Mr. MALLET-PREVOST. Paid at par. They were bought at par and were to be paid at par.

Senator HITCHCOCK. I understood this money was to be used for the redemption of the currency.

MR. MALLET-PREVOST. You mean of the currency? I will come to that in a moment. I just wanted to state, so as to get rid of that, how the loan was secured. It was stipulated in that contract that the \$1,500,000 should be secured by a lien upon the customs, and we put into the contract practically the same thing that was in the treaty that was pending before the United States Senate; that is to say, that the customs should be collected by an American collector. This American was to be nominated by the bankers; he was to be approved by the Secretary of State of the United States, and was appointed by Nicaragua. That was the only security.

When that treasury bills agreement went into effect the first thing we did was to try to get hold of a man whom we could nominate as collector general of customs. I had a number of interviews here in Washington, especially with the War Department and the Insular Bureau, and a man was very highly recommended to us—Col. Clifford D. Ham, who was then in the Philippine customs service. We investigated him thoroughly and he seemed to be a very satisfactory man, and has proven to be such. We conferred with reference to his appointment with the State Department and finally the Secretary of State approved him and he was appointed to take charge of the collections about the middle of December, 1911. In that connection, the bankers, on November 2, 1911, wrote this letter to Secretary Knox:

[19117]

BROWN BROTHERS & Co.,

59 Wall Street, New York, November 2, 1911.

HON. PHILANDER C. KNOX,

*Secretary of State of the United States,**Washington, D. C.*

SIR: We beg to advise you that on September 1, 1911, we entered into an agreement with the Republic of Nicaragua, by which we undertook to make a temporary loan of \$1,500,000, which the Republic urgently needed. As security for this loan, Nicaragua pledged her customs receipts, and agreed, in order to make such pledges effective, that the customs should be collected by a collector general to be nominated by us and to be approved by you. We beg to hand you herewith a copy of the agreement referred to.

The contract having been approved by the Congress of Nicaragua and having become effective, we have, in accordance with its terms, nominated Mr. Clifford D. Ham to be collector general of customs of Nicaragua. Relying upon your good offices in this matter, we submit his name to you, and beg that if it meets with your approval you will so advise us.

Mr. Ham is at present surveyor of the port of Manila, in the Philippine Islands; and has been recommended to us as a person qualified for the position and worthy of our confidence.

Respectfully, yours,

BROWN BROTHERS & Co.,

J. & W. SELIGMAN & Co.

Senator SMITH of Michigan. What was the amount to be advanced under that?

Mr. MALLET-PREVOST. A million and a half.

Senator HITCHCOCK. And a hundred thousand dollars of that was taken as capital for the bank?

Mr. MALLET-PREVOST. Yes, sir.

Senator HITCHCOCK. A million four hundred thousand dollars was deposited in New York?

Mr. MALLET-PREVOST. The whole \$1,500,000 was deposited in New York and subsequently applied in that way.

Senator HITCHCOCK. Tell us briefly how it gets out of New York and into Nicaragua.

Mr. MALLET-PREVOST. Certainly. That brings up the whole question of the currency down there. Might I just present this letter in which the Secretary approved of Ham's nomination, so as to pass this branch of it? I think this letter ought to be read, and I will then take up the question of the currency. It is as follows:

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(c)

Copy.]

DEPARTMENT OF STATE,
Washington, D. C., November 11th, 1911.

MESSRS. BROWN BROTHERS & COMPANY
and J. W. SELIGMAN AND COMPANY,
59 Wall Street, New York City.

GENTLEMEN: I acknowledge the receipt of your joint letter of the 2d instant, wherein you advise me that on September 1, 1911, you entered into an agreement with the Republic of Nicaragua by which you undertook to make a temporary loan of \$1,500,000, which you state the Republic urgently needed. You inform me that as security for this loan the Republic of Nicaragua has pledged its customs receipts and agreed, in order to make such pledge more effective, that the customs should be collected by a collector general to be nominated by you and approved by me, and you enclose with your letter a copy of the agreement referred to. You further inform me that the contract has been approved by the Congress of Nicaragua, and that, having therefore become effective, you have, in accordance with its terms, nominated Mr. Clifford D. Ham, who is at present surveyor of the port of Manila, in the Philippine Islands, to be collector general of customs of Nicaragua. You submit his name to me requesting that if it meets with my approval you be so advised.

In reply you are informed that a note has also been received from the envoy extraordinary and minister plenipotentiary of Nicaragua in this city in which he informs the department of the negotiations of this contract and requests, on behalf of his Government, that I take action upon the request made by you for the approval of the nomination of a collector general of customs of Nicaragua who, under the terms of the contract, is to be appointed by that Government. Since receiving your letter I have caused inquiry to be made regarding the fitness of Mr. Ham to fill the position for which he has been selected, and I am happy to be able to advise you that I have received a favorable reply. I therefore approve the selection of Mr. Clifford D. Ham as collector general of customs of Nicaragua, as a suitable and competent person to discharge the duties of that position. As pointed out during your informal conference with officials of this department in the month of August last, my approval of the person selected for the post of collector general of customs of Nicaragua must not in any wise be understood as indicating that the Government of the United States will lend any other or further good offices in the protection of the American citizens, parties to this contract, than it would accord to any legitimate American enterprise abroad, nor that this approval places the bankers in any better position in regard to seeking this protection than if I took no part whatever in the approval of a collector general of customs.

I am, gentlemen, your obedient servant,

(Signed) P. C. KNOX.

Senator SMITH of Michigan. Was that contract signed?

Mr. MALLET-PREVOST. This letter?

Senator SMITH of Michigan. Was the contract signed?

Mr. MALLET-PREVOST. Oh, yes, sir.

Senator SMITH of Michigan. That contract was signed and the customs of the country were pledged under it?

Mr. MALLET-PREVOST. Yes, sir.

Senator SMITH of Michigan. Now, the customs of the country had been pledged under the Ethelburga agreement?

Mr. MALLET-PREVOST. Yes, sir.

Senator SMITH of Michigan. Which I hold here?

Mr. MALLET-PREVOST. Yes, sir.

Senator SMITH of Michigan. The customs of the country had been partially pledged under the bond issue—under that bond issue [indicating paper]—had they not?

Mr. MALLET-PREVOST. Yes, sir.

Senator SMITH of Michigan. How could they all be pledged to all the various interests in good faith?

Mr. MALLET-PREVOST. I would be very glad to take up either that question or the one regarding the currency. I will take both of them up.

Senator WILLIAMS. I suggest that Mr. Mallet-Prevost make his outlined statement, and after that he can be questioned.

Senator SMITH of Michigan. All right; let him go on. I thought he had finished.

Mr. MALLET-PREVOST. I am going to deal with all of these questions.

Now, as to the currency, after the collector had gotten that part of the contract going then we made inquiries as to—pardon my saying “we” when it ought to be “the bankers.” I was only an outsider in this thing as counsel. The bankers considered whom they could recommend as currency experts to go down there and study the situation, and they finally selected Mr. Conant, who, as I understand, was before your committee the other day, and an Englishman, Mr. Francis Capel Harrison, who is considered one of the first currency experts in England; he had very great experience in India and in China. They went down to Nicaragua and their recommendations were finally embodied into a law which was passed by the Nicaraguan Congress, and which established the present currency system.

Before coming to that, I should say this, however, that immediately after the treasury bills agreement was concluded on September 1, 1911, Mr. Wands took that agreement and went down to Nicaragua for the purpose of having it ratified by the Nicaraguan Congress. It was during his stay at that time in Nicaragua that he ascertained, and on his return informed us, that a very large amount of paper currency had been issued of which we had no prior knowledge. When we negotiated the treasury bills agreement we were given to understand that the outstanding paper currency of the country amounted to somewhere between thirty and thirty-two million pesos—the exchange at that time being somewhat fluctuating: it went up as high, I think, as 2.200. The million and a half, or million four hundred thousand dollars, was believed to be, under the circumstances, a sufficient fund to be used as an exchange fund for the establishment of a gold standard there, fixing some definite exchange value for the outstanding currency so as to take care of the currency that was actually in the hands of the public. But when Mr. Wands came back from Nicaragua, after the Nicaraguan Congress had ratified the contract—

Senator SMITH of Michigan. Give the date, if you can.

Mr. MALLET-PREVOST. I do not remember; it must have been November or December, 1911—he then informed us that the Government down there had had the printing presses going and had issued about 16,000,000 more. So that instead of having to take care of thirty or thirty-two millions we found that we would have to take care of about 48,000,000. That was an unpleasant surprise.

Senator HITCHCOCK. Why did you say "we"? This money was turned over to Nicaragua.

Mr. MALLET-PREVOST. I know, but we were to study the situation and recommend a plan to help Nicaragua in carrying it out. In other words, she relied upon the bankers as experts in the matter to help her to do this thing.

Senator HITCHCOCK. You had no further control of the money, however?

Mr. MALLET-PREVOST. No; excepting that the currency plan to be adopted had to be approved by us.

Senator SMITH of Michigan. Under that agreement they were not privileged to issue this money?

Mr. MALLET-PREVOST. No; they were not until some currency plan had been studied and had been elaborated and had been approved.

Senator SMITH of Michigan. But notwithstanding that agreement they went on and did it?

Mr. MALLET-PREVOST. No, sir; they had done it. When Mr. Wands went down there he found the thing had been done.

Senator SMITH of Michigan. I understand that.

Mr. MALLET-PREVOST. They did it, as I understand, while our negotiations were going ahead and nobody up here knew anything about it.

Senator SMITH of Michigan. That is exactly what I am told.

Mr. MALLET-PREVOST. Now, when Harrison and Conant got down there they verified what Wands had told us of this large amount of outstanding currency and it immediately became evident that \$1,400,000 would not be enough to establish it upon the basis which the Government wanted to establish it. It appears that the Government had made promises to its adherents there that some rate of exchange should be finally established which, I think, should not exceed 1,250.

Senator HITCHCOCK. You mean $12\frac{1}{2}$ to 1?

Mr. MALLET-PREVOST. Yes; $12\frac{1}{2}$ to 1.

Senator SMITH of Michigan. Lest that question of mine seems to be a criticism, I want to have it appear that the reason I said what I did was because Mr. Conant told us he left New York in November, 1911. Mr. Wands had already been down there.

Mr. MALLET-PREVOST. Yes.

Senator SMITH of Michigan. And it was about that time, or just preceding that time, that these twenty-odd millions of new money was thrown into the circulating medium of Nicaragua?

Mr. MALLET-PREVOST. I can not tell you, Senator, just when it was.

Senator SMITH of Michigan. I did not intend it as a criticism of you. I simply wanted to state it as a fact.

Mr. MALLET-PREVOST. It became apparent that that amount of money would not be enough, and Conant and Harrison cabled us to that effect, and a long cable correspondence ensued which started negotiations for a new loan. The currency experts calculated that Nicaragua, in addition to that \$1,400,000, would require \$500,000 more in order to make the currency fund safe.

Senator SMITH of Michigan. Gold?

Mr. MALLET-PREVOST. Gold. Not only that, but apparently Nicaragua was in hard straits for current expenses, and wanted some money to pay its monthly bills. The result of those negotiations was

finally embodied in what is known as the supplementary-loan contract of March 26, 1912.

Senator SMITH of Michigan. Have you that contract?

Mr. MALLET-PREVOST. Oh, yes; all of those contracts are here.

Senator SMITH of Michigan. And you are going to file them?

Mr. MALLET-PREVOST. Yes. That contract provided, however, in the first place, that the bankers should extend a credit of \$500,000, which should be available if required for currency purposes. That was March 26, and six days before that, March 20, the Nicaraguan Congress had passed the new currency law which had been recommended by the currency experts and which had been approved by the bankers.

(The supplemental loan agreement of March 26, 1912, is as follows:)

THE REPUBLIC OF NICARAGUA AND BROWN BROTHERS & COMPANY AND J. & W. SELIGMAN & COMPANY.

Supplemental loan agreement dated March 26th, 1912.

Supplemental Loan Agreement, March 26, 1912.

Agreement, made at the City of New York this twenty-sixth day of March, one thousand nine hundred twelve, between THE REPUBLIC OF NICARAGUA, hereinafter called the "Republic," party of the first part, and BROWN BROTHERS & COMPANY and J. & W. SELIGMAN & COMPANY, copartnerships doing business in the City of New York, hereinafter called the "Bankers," parties of the second part, WITNESSETH:

WHEREAS under the terms of an agreement between the parties hereto, dated September first, one thousand nine hundred eleven, known as the "Treasury Bills Agreement," the Bankers have loaned to the Republic \$1,500,000 to be used for reforming the currency of the Republic and for establishing a bank, which sum, pursuant to the terms of said agreement, has been deposited with the United States Mortgage & Trust Company as trustee; and

WHEREAS the total present currency issue of the Republic is approximately sixteen million (16,000,000) "pesos" greater than the amount upon which the "Treasury Bills Agreement" was based; and

WHEREAS on March nineteenth/twentieth, one thousand nine hundred twelve a Bill for introducing and maintaining a stable currency system in Nicaragua was duly adopted by the Republic so that said funds in the hands of the United States Mortgage & Trust Company as trustee are now available for the purposes mentioned in the said "Treasury Bills Agreement"; and

WHEREAS the Republic requires additional funds for the purposes of said currency system and also to meet certain budget-expenditures;

Now, THEREFORE, in consideration of the premises and of the mutual covenants and undertakings hereinafter contained, it is hereby agreed as follows.

FIRST. In order to provide a reserve available exclusively for the purposes of said Currency Bill if and whenever any other funds available therefor under that Bill are exhausted, the Bankers will upon the conditions and in the manner hereinafter provided and upon the security mentioned below open a credit of Five hundred thousand dollars (\$500,000) to be drawn against at any time prior to October fifteenth, one thousand nine hundred twelve, but only if, as and when so required.

SECOND. Drafts against said credit shall be at sight on Brown Brothers & Company, and shall be drawn by National Bank of Nicaragua, incorporated, when opened for business, or prior thereto by the Minister of Finance of Nicaragua. Drafts so drawn by the Minister of Finance shall be valid only when approved by a representative of the Bankers in Nicaragua, to be appointed by them for that purpose, such approval to be evidenced by the countersignature of such representative.

THIRD. Any currency purchased with said drafts shall immediately be delivered to the Bankers' said representative, who shall deposit the same, for safe keeping, at such place or places as the Bankers may direct.

FOURTH. Also upon the security mentioned below and in order to enable the Republic to meet certain of its current monthly expenses the Bankers will loan, exclusively for such current expenses, sums not exceeding a total of Two

hundred fifty-five thousand dollars (\$255,000), of which Sixty thousand dollars (\$60,000) shall be available immediately, and the balance in monthly instalments at the rate of Thirty thousand dollars (\$30,000) per month for the months from April to September, one thousand nine hundred twelve, both inclusive, and of Fifteen thousand dollars (\$15,000) for the month of October, one thousand nine hundred twelve. For these amounts the Minister of Finance may draw at sight upon Brown Brothers & Company; the first draft or drafts, for not exceeding a total of Sixty thousand dollars (\$60,000), to be drawn immediately after the execution of the present contract, and the other drafts to be drawn monthly beginning with the month of April next. Said drafts shall all be approved by the Bankers' representative in Nicaragua.

FIFTH. The loans above mentioned shall constitute and are hereby declared to be a direct liability and obligation of the Republic irrespective of any security provided hereunder and the Republic hereby pledges its faith and credit for the due and punctual payment (1) of the principal thereof, (2) of interest at the rate of six *per centum* (6%) *per annum* upon the amount of all drafts paid by the Bankers from the date of payment of such drafts until repayment thereof, (3) of a bankers' commission of one *per centum* (1%) upon all such drafts, and (4) of the expenses mentioned in Article Eighteenth below.

SIXTH. The principal and interest of all loans to be made hereunder, all drafts which may be paid by the Bankers as hereinbefore provided, all commissions to which the Bankers may become entitled hereunder, and the expenses mentioned in Article Eighteenth below, shall be secured as follows:

(1) By a lien and charge upon all export and import customs duties receivable by or for the Republic from and after the date of this agreement, said lien and charge to immediately follow the lien and charge constituted upon said customs duties for the security of the gold treasury bills as provided in Article Fifth, section 1, of the "Treasury Bills Agreement";

(2) By a lien on all government railway and steamship lines, equipment, appurtenances, extensions and improvements, said lien to be effected as hereinafter provided;

(3) By all currency purchased with the proceeds of drafts against the credit of \$500,000 mentioned in Article First above, such currency to be held as collateral until said credit shall be fully liquidated or to be used for the purchase of exchange for remittance to the credit of the Exchange Fund mentioned in the Currency Bill, or otherwise to be disposed of as provided by said currency bill;

(4) By the claims of the Republic against the Ethelburga Syndicate, Limited, of London, especially against any moneys deposited by said Ethelburga Syndicate with the Anglo-South American Bank, Limited, or elsewhere; also by any funds to which the Republic may become entitled by reason of said claims or by reason of any settlement with the Ethelburga Syndicate, Limited, or with the holders of the 1909 bonds of the Republic, and by any securities which may be acquired by means of any such funds, including any 1909 bonds acquired under such settlement.

SEVENTH. The Republic hereby agrees to repay on or before October fifteenth, one thousand nine hundred twelve, all loans which may be made hereunder, together with interest and commissions as aforesaid, and the expenses mentioned in Article Eighteenth below. The Bankers agree, however, that if the Finance Minister shall so request, they (the Bankers) will on October 15, 1912 renew any part of said loans and any "Treasury Bills" remaining unpaid at that date and extend the payment of any interest and commissions then due and of the expenses mentioned in Article Eighteenth below; such renewal and extension to be for a period not exceeding one year from said October fifteenth, one thousand nine hundred twelve. The Bankers also agree that upon the request of the Minister of Finance they will extend for a like period the time during which drafts may be drawn against the credit mentioned in Article First above, provided, however, that notwithstanding said due date or any extensions thereof all of said loans, including interest, commissions and expenses and including "Treasury Bills," shall become immediately payable whenever funds of the Republic shall become available for their liquidation as follows:

1. All drafts on the credit of \$500,000, including interest on said drafts and the Bankers' commission of one *per centum* (1%) above mentioned, shall, upon the surrender of said drafts to the trustee, depository or custodian of the Exchange Fund mentioned in the Currency Bill above referred to, be paid to the Bankers out of the available moneys in said Exchange Fund when, as and to

the extent that said Fund may be replenished, and the present agreement shall be sufficient authority to such trustee, depository or custodian for the making of such payments upon the surrender of said drafts as aforesaid.

2. In case the Bankers shall purchase twelve million dollars par value of bonds of the Republic as contemplated in a contract between them and the Republic known as "Bond Purchase Contract," dated September first, one thousand nine hundred eleven, all loans hereunder so far as then made, together with interest, commissions and expenses as aforesaid, shall be immediately paid out of the proceeds of said bond sale, and the obligation of the Bankers to make any further loans hereunder or to extend any loans then already made shall cease.

3. Whenever any shares of stock of the Republic in the railway and steamship company mentioned in Article Twelfth below shall be sold all loans hereunder so far as then made, together with interest, commissions and expenses as aforesaid, shall be immediately repaid out of the proceeds of such sale, and the obligation of the Bankers to make any further loans hereunder or to extend loans then already made shall cease.

4. Whenever any moneys shall be recovered by reason of the Government's claims against the Ethelburga Syndicate, Limited, of London, all loans hereunder so far as then made together with interest, commissions and expenses as aforesaid, shall be immediately paid out of the proceeds of such recoveries so far as the same may be available for that purpose, and the obligation of the Bankers to make further loans hereunder or to extend any loans then already made shall cease, provided nevertheless that if the loans made and thus repaid shall be less than the maximum stipulated, and if the Republic shall still require the balance of such maximum for the purposes hereinbefore expressed, the obligation of the Bankers to loan such balance shall continue.

The Republic hereby agrees that in order to permit the payments mentioned in paragraphs 2 and 4 above to be made as herein contemplated and also in order to provide for any additional funds for currency purposes or for budget expenses it will, at the request of the Bankers, agree to such changes as the Bankers may deem necessary or advisable in a certain contract to which the Republic, the Bankers and the United States Mortgage & Trust Company as Trustees are parties, known as "Trust and Fiscal Agency Contract," dated September first, one thousand nine hundred eleven.

Notwithstanding the provisions hereinbefore contained as to the due dates of the loans to be made hereunder and as to the extensions thereof, if the Republic shall at any time fail in the performance of any of the obligations assumed by it under this agreement or under the "Treasury Bills Agreement" of September 1, 1911, or if it shall fail to perform any of the conditions herein set forth, all of said loans, including interest, commissions and expenses as aforesaid, shall thereupon immediately become due and payable.

Eighth. Any mention herein of loan shall be understood to include the credit mentioned in Article First, the loan mentioned in Article Fourth and all drafts paid by the Bankers hereunder; and any mention herein of repayment of or security for said loans shall be understood to include interest, Bankers' commissions and the expenses mentioned in Article Eighteenth below.

Ninth. The loans to be made hereunder and the Bankers' obligation to continue honoring drafts as herein provided or to extend the date of maturity of said loans are expressly subject to the following conditions:

(1) That the Republic shall modify its present annual budget so as to effect a net annual saving of Five million five hundred thousand (5,500,000) "pesos," such modifications to be made generally on the lines suggested heretofore by Messrs. Francis Capel Harrison and Charles A. Conant;

(2) That so long as any of the loans to be made hereunder shall remain unpaid neither the current revenues of the Republic nor the proceeds of said loans shall except with the consent of the Bankers be used to pay any local or other loans of the Republic;

(3) That any moneys which the Republic may receive through the sale or collection of certain drafts representing a total of about \$650,000 recently received by the Republic in connection with certain Government concessions commonly known as "Deitrich concessions," shall, to the extent of \$500,000 or such lesser sum as may be necessary or available, be used for and applied by the Republic to the payment of its present liabilities, especially its indebtedness to local bankers.

(4) That pending the repayment of all loans to be made hereunder, the Republic will not, except with the consent of the bankers, pay any of its pending

debts except current expenses, and especially no war debts, and that all claims in connection with such debts, including therein those already certified by the Government for payment, shall be referred to the Mixed Claims Commission at Managua.

(5) That the Republic will duly and faithfully perform all its undertakings under the present contract as well as under the various contracts dated September 1, 1911, known, respectively, as "Treasury bills agreement," "Trust and fiscal agency contracts," and "Bond purchase contract," and their various annexed "Schedules"; and

(6) That as soon after the date of this agreement as the Collector-General of Customs can make the necessary arrangements, the customs duties receivable by the Republic shall be collected at a rate of exchange which, based upon the present currency, shall be equivalent to 800, instead of 650 as at present; and that whenever such customs duties shall be paid or become payable in the new currency authorized by the Currency Bill of March 19th-20th, 1912, the duties then collected shall be upon a basis which, calculated in the new currency, shall be equivalent in gold to duties payable in the present currency at the rate of exchange of 800; pending a scientific revision of the tariff, to be approved by the Bankers, the customs duties shall continue to be collected as aforesaid, and no change except with the consent of the Bankers shall be made either in the basis of collection or in the tariff rates.

In consideration of the loans thus to be made by the Bankers, the Republic agrees as follows:

TENTH. The gold treasury bills issued under the provisions of the "Treasury Bills Agreement" of September 1, 1911 are hereby further secured and are hereby made a further lien and charge (1) upon the Republic's claims against the Ethelburga Syndicate, Limited, especially upon any moneys deposited by said Ethelburga Syndicate, Limited, with the Anglo-South American Bank, Limited, or elsewhere, also upon any funds to which the Republic may become entitled by reason of said claims or by reason of any settlement with the Ethelburga Syndicate, Limited, or with the holders of the 1909 Bonds of the Republic, and upon any securities which may be acquired by means of any such funds, including any 1909 bonds acquired under such settlement, and (2) upon all existing railway and steamship lines in Nicaragua owned by the Republic and upon all their equipment, appurtenances, extensions and improvements, this lien to be effected in the manner hereinafter provided. The lien and charge upon said claims and properties shall be subsequent only to the first lien and charge upon the same claims and properties, mentioned in subdivisions 2 and 4 of Article Sixth above. Notwithstanding the creation of any liens provided hereunder, the railway and steamship lines may with the consent of the Bankers be sold by the Republic free and clear of all liens and charges, and in case of such sale the proceeds thereof shall be disposed of as hereinafter provided, and for this purpose it is expressly provided that the Bankers may at any time, at their option, waive the security which is hereby constituted in favor of the holders of said gold treasury bills.

ELEVENTH. The option, secured to the Bankers under paragraph 1 of Article Eleventh of the "Treasury Bills Agreement," to declare operative contract "Schedule B" annexed to said "Treasury Bills Agreement" and to purchase the bonds to be issued under the provisions of said contract "Schedule B" upon the terms and conditions set forth in agreement "Schedule X" annexed to said "Treasury Bills Agreement" shall be and the same is hereby made for six months instead of thirty days. For the purpose of making said extension effective the period mentioned in section 6, Article Tenth of contract "Schedule B" is likewise made six months instead of thirty days. Notwithstanding the provisions of this Article and the right of the Bankers to utilize the entire option period of six months, they shall, if consistent with their interests and the interests of the Republic, exercise such option at an earlier date, provided in their opinion the circumstances of the case at that time make such exercise expedient or advisable.

TWELFTH. As soon as practicable after the execution of the present contract the Bankers shall cause to be incorporated under the laws of one of the states of the United States of America a corporation, hereinafter called the "Company," and thereupon the Republic shall transfer and convey to said Company all of its railway and steamship lines in Nicaragua together with their equipment, appurtenances, extensions and improvements and shall place the Company in possession thereof. The name of said Company, the amount and character of its capital stock, the provisions of its charter and by-laws, and generally

all matters relating to its incorporation and organization shall be agreed upon between the Executive of the Republic and the Bankers, for which purpose the Executive shall appoint a representative in the United States. Simultaneously with the conveyance of said railway and steamship lines as aforesaid the Executive of the Republic shall execute in favor of said Company a concession which shall have reference to said railway and steamship lines and to their extensions and branches. Said concession shall be as broad as may be necessary or advisable to insure the full utilization and enjoyment of said lines of communication and of their appurtenances and shall contain among others the following provisions:

(a) If the Company shall decide to extend the existing railway from Corinto or from Chinandega to the Gulf of Fonseca, it shall construct at this latter place a wharf adequate to the necessities of the Republic.

(b) In its further provisions said concession shall follow the general lines which were adopted by the Republic in connection with another concession which as "Schedule D" was annexed to the "Treasury Bills Agreement" between the Republic and the Bankers dated September 1, 1911, which other concession has reference to the railroad from the Atlantic Coast to the Great Lakes. The concession so to be granted shall contain substantially similar provisions adapted to the lines now in question as are set forth in the following articles and sections of said other concession above mentioned, to wit:

All of articles Second, Sixth, Eighth, Eleventh, Twelfth, Thirteenth, Fourteenth, Sixteenth, Seventeenth and Eighteenth; also sections 2, 3 and 7 of Article Fifth, sections 1, 2, 4, and 6 of Article Seventh; section 3 of Article Ninth; sections 2, 3, 4, 5 and 6 of Article Tenth; section 2 of Article Fifteenth; also the following, viz.: Article Third in so far as similar provisions shall apply to new constructions, extensions and branches; sections 1, 4 and 5 of Article Fifth in so far as similar provisions shall apply to the existing lines, to extensions and branches thereof; also section 6 of Article Fifth, amplified to include existing rights of way and the enlargement and increase thereof, also rights of way for branches and extensions of said lines; also section 3-A of Article Seventh; also section 3-B of said Article Seventh; also section 1 of Article Ninth in so far as similar provisions shall apply to new constructions, extensions and branches; also section 1 of Article Tenth, except that during the first twenty years of said concession in maximum rates shall be: for first-class passengers 4 cents per mile, for second-class passengers $2\frac{1}{2}$ cents per mile, and for merchandise, exported or imported, 12 cents per mile per ton of 2,000 pounds, weight or measurement, said rates to be in United States Gold Coin or its equivalent, and that after the expiration of said first twenty years, said maximum rates shall be 5 cents, 3 cents and 20 cents gold as aforesaid, respectively; also section 1 of Article Fifteenth, except that the 99 year period shall begin from the date of said concession.

The transfer of said railway and steamship properties, the granting of said concession, the recording of the conveyances, the registration of the Company's charter, and generally all acts necessary or incidental to the carrying out of the above plan shall be free from taxation of all kinds.

All expenses incident to or connected with the incorporation of the Company, with the transfer to it of the railway and steamship lines, and generally with its organization, shall be for account of the Company and shall be paid out of its earnings, but the Republic hereby guarantees that such payment shall be made on or before October fifteenth, one thousand nine hundred twelve; it is, however, agreed that if the Finance Minister shall so request, the due date of such guaranty shall be extended for a period not exceeding one year from said October 15, 1912.

THIRTEENTH. The capital stock of said company shall all belong to the Republic and the shares representing said stock shall be issued to such persons as the Executive may appoint, and when so issued shall be endorsed in blank and deposited with the Bankers to be held by them, (1) as collateral security for loans referred to in Articles First and Fourth, above, and in order to give effect to the provisions of Articles Sixth, paragraph 2, above; (2) as collateral security for the gold Treasury Bills as provided in Article Tenth above; (3) for the purposes of the option mentioned in Article Fourteenth below; and (4) for the purposes of control and management mentioned in Article Fifteenth below.

FOURTEENTH. For a period of twelve months from the date hereof, also during such period as any Treasury Bills remain unpaid and also until the expiration of the option under Article Sixth of the contract of September 1, 1911,

known as "Bond Purchase Contract" regarding the organization of a railroad company for the purpose of constructing and operating a railroad from some point on or near the Atlantic Coast to the Great Lakes of Nicaragua, and relative to the acquisition of a controlling interest in said railroad company, the Bankers shall have the right at their option to purchase and the Republic hereby agrees at the request of the Bankers under said option to sell, transfer, convey and assign to them free and clear of any and all liens, charges or encumbrances 51% of the entire capital stock of the railway and steamship company hereinbefore referred to for the price of one million dollars United States gold, which, when paid, shall be disposed of as provided in Article Sixteenth below,*it being agreed however that in case the Bankers shall exercise said option and shall purchase said stock, they shall advance to the company within two years following the date of said purchase at least \$500,000 to be expended on extensions and improvements of said railway and steamship lines, said advance to be made upon the issue and delivery to said Bankers of first mortgage 6% bonds of the company to an amount which at 85% of their par value shall represent the sums thus advanced. The exercise of said option shall be by notice to the Republic to be given in the same manner as provided in Article Thirteenth of the Agreement of September 1, 1911, known as "Treasury Bills Agreement," in which case the Executive shall deliver to the Bankers the stock so purchased.

In case the Bankers shall exercise the above option and in case the Republic shall at any time desire to dispose of all or any part of its remaining 49% of stock in said company, it shall first offer the same to the Bankers, who shall have the right at their option at any time within thirty days after such offer to purchase the same or any part thereof at the same price and upon the same terms and conditions as may be offered by other intending *bona fide* purchasers.

FIFTEENTH. During the continuance of said option and until all loans made hereunder shall be fully repaid the Republic shall not sell nor otherwise dispose of its shares in the company: pending such option and repayment the railway and steamship lines shall be managed and controlled exclusively by the Bankers, and to that end the Republic shall authorize the Bankers to vote all the shares of stock owned by it and shall take all other necessary steps to secure the election as directors of such persons as the Bankers may designate.

The gross income from said railway and steamship lines shall be applied, first, to the expenses of said company and to the maintenance, operation, betterments and improvements of the lines; and the balance, if any, shall be paid to the Republic as dividends upon its stock so long as the Republic shall faithfully comply with its contracts with the Bankers, it being understood that in case of the Republic's failure at any time to so comply said dividends shall be paid to the Bankers on account of such sums as the Republic may then owe them.

SIXTEENTH. The proceeds of any sale of the Republic's shares of stock in the proposed railway and steamship company shall be applied by the Bankers as follows and in the following order:

1. To the payment of overdue interest, if any, on any Treasury Bills then outstanding.
2. To the repayment to the Bankers of the expenses mentioned in Article Eighteenth hereof, and in Article Twelfth of the Treasury Bills Agreement.
3. To the repayment to the Bankers of such portion of the loan of \$255,000 mentioned in Article Fourth above, as may up to that date have been advanced, together with interest and commissions as hereinbefore provided.
4. To the payment into the Exchange Fund under the Currency Bill hereinbefore mentioned of \$500,000 or such portion thereof as may be required for the purposes of said Currency Bill.
5. To the payment of loans owing by the Republic to local bankers which may not theretofore have been liquidated, as provided in Article Ninth, paragraph 3 above, or otherwise.
6. To the Government for its current expenses a maximum of \$200,000, such payment however to be made only in case less than \$500,000 shall be required for the Exchange Fund under paragraph 4 of this Article: the sum thus to be payable to the Government for current expenses shall be taken only from such difference as there may be between the amount required for the purposes under paragraph 4 above and the \$500,000 set aside therefor.

7. Any balance shall be used as the Minister of Finance and the Bankers may agree.

SEVENTEENTH. The Republic guarantees that not more than 48,000,000 pesos of currency are outstanding; that only that amount of currency is to be provided for and exchanged under the Currency Bill of March 19-20, 1912; and the Republic hereby agrees that it will not issue nor permit the issue of any additional currency except under and in accordance with the provisions of said Currency Bill.

EIGHTEENTH. The Bankers shall be repaid all expenses incurred by them on account of counsel fees, cabling, traveling expenses and generally all sums expended in connection with the matters covered by this agreement or in connection with the incorporation and organization of the railway and steamship company, but no compensation shall be paid to the Bankers for their services except the one per cent. commission on drafts paid by them as above provided. Said expenses except as hereinbefore provided shall be repaid by the Republic out of its general revenues not later than October 15, 1912, and shall be paid prior thereto in case the Bankers shall sooner purchase the bond issue above mentioned, or in case the railway and steamship company shares of the Republic shall sooner be sold, or in case any amounts shall sooner be collected on account of the claims against the Ethelburga Syndicate: in any of the cases mentioned said expenses shall be immediately paid out of the proceeds of any such sale or collection.

NINETEENTH. The Republic shall at the request of the Bankers execute any further instruments public or private which in the opinion of said Bankers may be necessary or desirable in order to more fully evidence or effect the liens, charges and encumbrances constituted or intended to be constituted hereunder.

TWENTIETH. This agreement shall be deemed to be, and shall be construed as, a New York contract. Its provisions shall apply to and in respect of the firms of bankers constituting the parties of the second part, as such firms shall from time to time be constituted, without reference to any change of membership.

TWENTY-FIRST. This agreement shall bind, and is for the exclusive benefit of, the parties hereto: nothing herein contained shall be deemed or construed as creating any trust or obligation in favor of, or as conferring any privilege or benefit whatsoever upon, any creditor of the Republic or any person or corporation claiming to be such creditor.

TWENTY-SECOND. All the options granted hereunder to the parties of the second part are intended for their joint benefit, and in each case such options shall be exercised jointly by both firms, except that if in the case of any particular option either of said firms shall elect not to avail itself of the option privileges such option may be exercised by and shall inure to the benefit of the other firm.

IN WITNESS WHEREOF the Republic has caused this agreement to be subscribed on its behalf by Dr. Salvador Castrillo, Jr., Envoy Extraordinary and Minister Plenipotentiary of the Republic of Nicaragua near the Government of the United States, and said Brown Brothers & Company and J. & W. Seligman & Company have hereunto set their hands and seals the day and year first above written. This contract is executed in quintuplicate.

(Signed)	SALVADOR CASTRILLO, Jr.
(Signed)	BROWN BROTHERS & Co. [L. S.]
(Signed)	J. & W. SELIGMAN & Co. [L. S.]

The CHAIRMAN. Have you in your possession a copy of the currency law of March 20, 1912?

Mr. MALLET-PREVOST. Yes.

The CHAIRMAN. Have you it with you?

Mr. MALLET-PREVOST. I have not it here, but I should be glad to send it. Have you Mr. Conant's printed report?

Senator HITCHCOCK. Yes; I have a copy.

Senator SMITH of Michigan. I think most of us have it.

Mr. MALLET-PREVOST. It is in that.

The CHAIRMAN. Very well, there will be no need of sending for it.

Mr. MALLET-PREVOST. In addition to that, the bankers undertook to lend Nicaragua \$255,000 more at the rate of \$30,000 a month for its current expenses, and there were no treasury bills or anything

issued in representation of those loans. It was simply that the bankers agreed to make them and Nicaragua agreed to repay them, and they were to draw 6 per cent interest.

Senator SMITH of Michigan. Annually?

Mr. MALLET-PREVOST. Six per cent interest annually. The loan was secured also by the customs, and by the existing railroad that belongs to the Government, running along the Pacific coast. And in consideration of the bankers making that agreement at that time the Government gave the bankers an option to purchase a 51 per cent interest in the railroad for \$1,000,000.

Senator SMITH of Michigan. That is an additional consideration to the 6 per cent they got on their loan?

Mr. MALLET-PREVOST. Yes.

Senator HITCHCOCK. What was the amount of that supplementary loan?

Mr. MALLET-PREVOST. \$755,000.

Senator HITCHCOCK. Payable \$30,000 a month?

Mr. MALLET-PREVOST. No; \$500,000 was a credit which would be drawn on only if required for the currency, and interest was to be paid if it was drawn, and not otherwise. And \$255,000 was for the Government's expenses, to be drawn at the rate of \$30,000 a month.

(Copies of letters from the bankers to the Secretary of State dated February 21, 1912, and April 2, 1912, relating to the supplemental loan, appear in the appendix.)

Senator HITCHCOCK. Now, you are going to trace the course of that loan?

Mr. MALLET-PREVOST. Yes; what was done. The bankers, as I say, were given an option to purchase for \$1,000,000, 51 per cent interest on the then existing railroad, and it was agreed that that railroad should be transferred—the title was in the Government—that it should be transferred to an American corporation which should be formed; and the stock of that corporation should be pledged with the bankers as additional security for this \$755,000; also that the bankers should undertake the management of that railroad for the benefit of Nicaragua, not as owners of the stock, but as managers of the road.

Senator SMITH of Michigan. Was that done?

Mr. MALLET-PREVOST. Yes.

Senator SMITH of Michigan. And all those conditions were met?

Mr. MALLET-PREVOST. Yes; carried out.

(Copy of the conveyance and of the concession from the Republic to Ferrocarril del Pacifico de Nicaragua, both dated June 19, 1912, appear in the appendix.)

Senator SMITH of Michigan. Under what law was the railroad company organized?

Mr. MALLET-PREVOST. Under the laws of the State of Maine. I am coming to that a little later.

Senator SMITH of Michigan. Just before you leave that, was all of the stock of the railroad company then hypothecated or deposited in escrow?

Mr. MALLET-PREVOST. It was deposited with the bankers.

Senator SMITH of Michigan. All of the stock?

Mr. MALLET-PREVOST. Except a few qualifying shares.

Senator SMITH of Michigan. 51 per cent or 49 per cent?

Mr. MALLET-PREVOST. All.

Senator SMITH of Michigan. Except a few qualifying shares for directors?

Mr. MALLET-PREVOST. Yes.

Secretary BRYAN. But the option was only on 51 per cent?

Mr. MALLET-PREVOST. Only on 51 per cent for \$1,000,000.

Senator SMITH of Michigan. That is, there was a further option that in the event of its being sold to anyone it should be first offered to the bankers?

Mr. MALLET-PREVOST. Yes; if the Government at any time wanted to sell the other 49 per cent, the bankers should have the preference.

Senator SMITH of Michigan. They should first offer it to the bankers, and that should run through the life of the contract?

Mr. MALLET-PREVOST. Yes.

Secretary BRYAN. But with no fixed option?

Mr. MALLET-PREVOST. No.

Senator SMITH of Michigan. With no fixed option, but the bankers were to have the preference?

Mr. MALLET-PREVOST. Exactly.

Senator HITCHCOCK. Now, will you please trace this loan? I should like to see about that.

Mr. MALLET-PREVOST. Before tracing that loan, because that is a pretty complicated thing and involves other contracts, can I go now into the Ethelburga matter?

Senator HITCHCOCK. Will you not say, in short, then—did they not require this additional \$500,000 as a reserve against the currency?

Mr. MALLET-PREVOST. They required that and a great deal more.

Senator HITCHCOCK. And they required \$255,000 for expenses?

Mr. MALLET-PREVOST. They did, and a great deal more. They got it all.

Senator HITCHCOCK. So that the result was that this whole loan was advanced, \$755,000, and was not paid, and the result of the non-payment was that the bankers secured—

Mr. MALLET-PREVOST. Oh, no; it was finally paid. There was an adjustment and new contracts made. The only way, Senator, in which you can get that thing straight is just to follow the chronological order of the contracts.

Senator HITCHCOCK. The purchase outright of 51 per cent was for \$1,000,000?

Mr. MALLET-PREVOST. That was carried out later; only last October.

Senator HITCHCOCK. So that Nicaragua only got that \$1,000,000 last October?

Mr. MALLET-PREVOST. That is correct.

Senator HITCHCOCK. Why was Nicaragua under the necessity last October of borrowing another million dollars?

Mr. MALLET-PREVOST. Oh, bless my soul, she was hungry for money all the time, and in the meantime a revolution had come on down there. Things were in a frightful condition. Another of the provisions of the supplementary loan contract of March 26, 1912, was that the bankers on behalf of Nicaragua should take up the negotiations of settlement with the Ethelburga Syndicate, and that brings me to that subject.

Senator SMITH of Michigan. Right on that subject, I want to offer the Ethelburga agreement.

Senator ROOT. Let him go on and make his statement.

Senator SMITH of Michigan. I will, but I want to offer this. The Ethelburga agreement is printed in Memoria de Hacienda y Credito Publico.

Senator HITCHCOCK. Can we not put that in later?

Senator SMITH of Michigan. Yes; we can put it in later, but I would like to have it identified by the witness, if possible.

Mr. MALLET-PREVOST. I have copies which I was going to put in myself.

The CHAIRMAN. Proceed. I hope you will be permitted to go on with the chronological order of these events from the start.

Mr. MALLET-PREVOST. I thank you very much. I will give you a little history of the Ethelburga matter, and in that connection I desire to state that when Brown Bros. and Seligman first became interested in Nicaraguan affairs we were faced with this Ethelburga situation. I at that time made a study of the legal aspects of the situation, which I embodied in a memorandum which I have before me and which I will file with the committee.

Senator SMITH of Michigan. Give the date of it.

Mr. MALLET-PREVOST. There is no date to the memorandum; it was gotten up in 1911.

(The Ethelburga agreements referred to by Mr. Mallet-Prevost are as follows:)

CONTRATO PRINCIPAL.

THE REPUBLIC OF NICARAGUA.

Agreement relating to a proposed issue of gold bonds of the Republic of Nicaragua.

Between the Government of the Republic of Nicaragua (hereinafter called "the Government") represented jointly by Senor Don Crisanto Medina, resident in Paris and diplomatic minister of the said Republic, and Senor Don Angel Caligaris, now resident in Paris, acting in pursuance of the law of the National Legislative Assembly of the said Republic of the 5th September, 1908, ratified by the executive power on the 11th of September of the said year, and by virtue of powers of attorney given to them, respectively, on the 19th day of September, 1908, the 16th day of September, 1908, minister of finance and public credit of the Government of the Republic of Nicaragua, and with the approval of the executive power of the said Republic, of the one part, and the Ethelburga Syndicate (Ltd.), of 84 Bishopsgate Street, Within, London, E. C. (hereinafter called "the syndicate"), of the other part: Whereas the Government proposes to make an issue of gold bonds, now it is hereby agreed between the parties hereto as follows:

I. The Government hereby grants to the syndicate the right to make or cause to be made a public issue of the said gold bonds.

The bonds shall bear interest at the rate of 6 per cent per annum on their nominal value, and the nominal amount of the issue will be £1,250,000. The loan shall be represented by bonds of such denominations as the syndicate shall require. Bonds of this issue of the nominal amount of £500,000 shall be reserved for the redemption and conversion of the outstanding bonds of the English loan of 1886 and the New Orleans loan of 1904. The proceeds of the issue of the remaining bonds are destined to provide funds for the construction of the railway from the Great Lake of Nicaragua to the Atlantic Ocean and other public works of general interest.

III. The bonds will be payable to bearer and printed in English and French. They shall be accepted by all the fiscal agencies of the Republic as equivalent to cash to the full extent of their nominal amount for the purpose of caution money or as a deposit of security required by the Government, provided, always, that such caution or deposit moneys do not relate to the payment of taxes or fiscal revenues and also that the bonds of this issue shall not be accepted in payment of the purchase price of national property.

IV. The interest on the bonds shall be payable in pounds sterling on presentation of the corresponding coupon half-yearly on the 1st January and the 1st July in each year.

V. The principal and interest of the bonds shall be paid at the office of the bank charged with the service of the loan (hereinafter called "the bank"), or at its agencies duly appointed for that purpose.

VI. The repayment of the whole loan will be effected within a maximum period of 35 years, by the operation of an accumulative sinking fund as hereinafter provided. The sinking fund will be applied by means of purchases in the market by the bank, if bonds be obtainable under par, or of drawing by lot if the price be at or above par. In the latter case the drawing shall take place in the month of October in each year, in the presence of a notary public and of a representative of the Government, if the Government shall so desire. The numbers of the bonds drawn, and also the numbers of all bonds purchased for cancellation, together with a copy of the notarial certificate of the drawing, shall be published without delay, in newspapers appearing in the cities of London and Paris, and in such countries as may be appointed, and the bonds drawn shall be payable in sterling at par on the first January following. The interest on such bonds shall cease to run from the date on which the principal is payable, and might have been received had such drawn bonds been presented. All bonds presented for payment must be furnished with all coupons not matured at the date fixed for the redemption. In case any of such coupons are missing, their amount shall be deducted from the nominal amount of the bond payable to the holder. The redemption of the bonds by the application of the sinking fund, as herein provided, shall commence on the 1st day of January, 1910, and be continued in every year whilst there are any bonds of this issue outstanding.

VII. The coupons matured and paid, and also the bonds drawn and paid, or purchased in the market as aforesaid, with the unmatured coupons attached thereto, shall be canceled and held by the bank at the disposal of the Government.

VIII. The amount necessary for the service of the loan shall be provided by the Government in the manner following, that is to say: In each year, whilst any of the bonds are outstanding, the Government will pay to the bank, at its principal office in Europe or its agents in Nicaragua, through the English or American companies, which prior to the execution of the general bond of this loan are to be incorporated, and have vested in them the concessions and businesses now belonging to La Compañía de Aguardiente Limitada de Nicaragua and El Sindicato de Tabaco Limitado de Nicaragua, an annuity of £87,500, payable in 12 equal monthly installments, on the 5th day of each calendar month. The Government will procure that the said companies shall simultaneously with the execution of the general bonds of this loan enter into agreements with the bank, and respectively covenant with it to pay to it, in respect to the said annuity of £87,500, the respective amount of £70,000, payable by La Compañía de Aguardiente Limitada de Nicaragua, and £17,500, payable by El Sindicato de Tabaco Limitado de Nicaragua. Should the total amount of bonds actually issued be less than £1,250,000, then and in such case the said respective sums of £87,500, £70,000, and £17,500 shall be reduced to a sum which shall bear the same proportion to the total nominal amount of the bonds actually issued as the said sums of £87,500, £70,000, and £17,500 bear to £1,250,000. Should default at any time be made by the said two companies in the payment of any of the said monthly installments the Government will, within 14 days after the due notice on which such payments should have been made, provide the necessary funds from the general revenues of the Republic and pay the same to the bank at its principal office in Europe. The said annuity shall be applied first in payment of the interest on all bonds of this issue in circulation, and the balance, less a payment to the bank of 1 per cent, as provided in clause 20 hereof, shall constitute the accumulative sinking fund.

IX. As security for the due and punctual payment of the said annuity the Government will irrevocably designate and hypothecate, as a first charge and until the complete repayment of all the principal and interest of the loan, the following revenues and resources of the Republic, *videlicet*:

1. All the moneys payable to the Government in respect of the concession granted for the monopolies of the sale of liquor and tobacco in the Republic now belonging to the said La Compañía de Aguardiente Limitada de Nicaragua and El Sindicato de Tabaco Limitado de Nicaragua, respectively.

2. The railway already constructed and now in course of construction from the Great Lake of Nicaragua to the Atlantic Ocean, which is intended to be completed out of the proceeds of the present loan.

3. The Pacific Railway and the steamboats plying on the lakes of Nicaragua.

4. All the securities which are at present subject to the outstanding bonds of the English loan to the Republic of the 17th December, 1886, as modified on the 12th September, 1895, and of the American loan of 4th April, 1904, as soon as such bonds with the interest thereon shall have been redeemed.

5. All the customs duties levied, imposed, or receivable by the Government.

In the event of the sums received from the securities so hypothecated as aforesaid being insufficient, the Government will duly provide the necessary funds from the general revenues of the Republic.

X. Thirty days after funds have been paid to the agents in Nicaragua of the bank, or upon their receipt at the principal office of the bank in Europe, the same shall be placed to the credit of a loan account with the bank, and this account shall be debited 15 days before the dates fixed for payment with the sums necessary half yearly for the purpose of interest and amortization. The account shall bear interest in favor of the Government at the rate of 1 per cent under Bank of England rate. A copy of the said account shall be furnished to the Government by the bank in January and July of each year.

XI. The general bond, the provisional certificates, and the definitive bonds shall be in such form as the syndicate may require and shall be signed on behalf of the Government by the duly authorized representative of the Government and be delivered as soon as practicable. The general bond, provisional certificates, and definitive bonds shall be deposited at the office of the bank and delivered to the syndicate as provided for in the next following clause.

XII. The bonds to be issued shall bear interest on their nominal amount at the rate of 6 per cent per annum, and the nominal amount of the loan shall be £1,250,000. The syndicate shall with the bonds and the proceeds of the public issue thereof discharge the loans to the Government of £50,000 and £2,300 made by the London Bank of Mexico and South America (Ltd.) and the syndicate, respectively, with interest thereon, and arrange the redemption or conversion of the existing English loan of 1886 and New Orleans loan of 1904 and provide the Government with the sum of £510,000 in cash. The provisional certificates and bonds deposited with bank shall be dealt with as follows:

The bonds of the nominal value of £500,000 reserved for the redemption and conversion of the existing English and New Orleans loans shall be delivered to the syndicate in exchange for canceled bonds of those loans, at such times and in such amounts as the syndicate may require to take delivery thereof, provided always that the arrangements for the redemption and conversion of the existing English and New Orleans loans shall be made by the syndicate, and that the Government shall from time to time, upon request by the syndicate, deliver to it for public issue and sale bonds so reserved. The remaining bonds of the nominal value of £750,000 shall be purchased by the syndicate and delivered to it upon payment to the bank, for account of the Government, at the rate of £75 for every £100 nominal value of bonds.

The first payment to the Government hereunder shall be for the amount of not less than £50,000, and be made within 30 days from the date hereof, and subsequent payments shall be made by the syndicate at the rate of not less than £50,000 per calendar month.

XIII. The bonds reserved for the redemption and conversion of the existing English and New Orleans loans shall not bear interest until issued, but the Government will continue to pay the interest and amortization charges, in respect of the outstanding bonds of the existing English and New Orleans loans until the same shall be redeemed or converted.

XIV. All payments in respect of the loan, whether for interest, redemption, or otherwise, shall be in gold, and the coupons and bonds and the sinking fund for the redemption thereof shall be free from all taxes in Nicaragua, whether present or future, and whether ordinary or extraordinary, national, municipal, or of whatsoever nature, to which the coupons or the bonds or the sinking fund may, at any time, be subject in Nicaragua, the Government undertaking to pay any such taxes which may hereafter be levied. The Government will bind itself to pay regularly the coupons and drawn bonds, whether in time of peace or war, and whether the bearers be subject of a friendly or hostile country.

XV. If any of the bonds or coupons of the loan shall happen to be defaced or destroyed from any cause whatsoever, the Government will, against payment of

the expenses and on proof satisfactory to the Government, deliver to the parties entitled thereto new bonds or new coupons, as the case may be.

XVI. On the death of any holder of bonds of the present loan the bonds shall devolve in accordance with and subject to the same laws which regulate the distribution of the rest of his personal and movable estate.

XVII. In the event of coupons not having been presented for payment within five years, or drawn bonds within 15 years after their respective due dates for payment, the holders of such coupons or bonds shall thereafter be referred to the Government at the city of Managua.

XVIII. The Government reserves to itself the right at any time to redeem the whole or any portion of the loan by payment at par with interest accrued due to the date appointed by the notice hereinafter mentioned, on giving to the bank in London and by advertisement in the Times and one other leading daily paper circulating in the cities of London and Paris and such other countries as may be appointed six months previous notice of its intention in that behalf. Such redemption may take place by means of direct payment to the bondholders at the time appointed by the notice, and the provisions of clause 6, with reference to the cesser of interest and delivery up of coupons not matured, shall apply to such redemption.

The Government may also, on giving six months' previous notice as aforesaid, redeem any portion of the loan by an increase of the sinking fund and the application thereof as provided by clause 6.

XIX. No debt or loan thereafter constructed by the Republic shall rank in priority to or on equality with the present loan; and the Government engages that none of the revenues of the Republic to be specially hypothecated shall be disposed of or dealt with in such manner as to affect or diminish the benefit of the charge to be given by the general bond of the said issue.

XX. The Government will pay to the bank a commission of 1 per cent on all moneys required for the service of the loan, including the payment of interest and the purchase on the market or redemption.

XXI. Upon the syndicate signifying to the Government their intention to make a public issue of the bonds, the representative in England of the Government will give such authorization to the prospectus and do all such acts (including furnishing any necessary documents) as may reasonably be required for facilitating the issue, and also, when and as required by the syndicate, do all such acts and things as may be necessary to obtain official quotation of the bonds on the stock exchange of London, Paris, and such other places as may be desired, at the expense of the syndicate.

XXII. The syndicate undertakes to pay all expenses, commission and brokerage, in connection with the public issue of the bonds, for making the market and introducing the new bonds to the public in Europe (including the commission to the issuing bank, advertising, lawyers' fees, and cost of preparing, issuing, and stamping, in accordance with English law, the definite agreement, and any deeds of hypothecation, and of preparing, printing and stamping all, certificates and bonds as issued), but the Government shall bear, pay, and discharge all stamp duties, registration fees, etc., payable in Nicaragua, in respect of the bonds of the said loan, or any instrument for securing the moneys payable thereunder.

XXIII. On delivery of any bonds to the syndicate, coupons for interest due on dates then past shall be cut off and canceled.

XXIV. In the event of any financial crisis, panic, war, force majeure, or other event over which the syndicate has no control, arising during the existence of this contract, which would imperil the public issue or sales of the said bonds, the syndicate is hereby granted an extension of time for the performance of its obligations hereunder for the period which such crisis, panic, war, force majeure, or other event may continue.

XXV. The syndicate shall have the right to assign the present contract to a bank, to be nominated by them, who shall be prepared to give the necessary guarantees for carrying out the issue of the said bonds in accordance with the terms hereof.

XXVI. If, whilst any of the bonds of this loan are outstanding, any difference shall arise in regards to the rights of the holders of such outstanding bonds, the terms hereof shall be construed in accordance with the laws of the United States of America, and such difference shall forthwith be referred to arbitration. The President of the United States of America and the President of the Republic of Nicaragua shall each appoint an arbitrator, and should the arbitrators so appointed fail to agree with respect to any difference referred to

them, the Presidents of the United States of America and the Republic of Nicaragua shall appoint an umpire, by whom such difference shall be decided, and who will, if necessary, appoint a delegate to receive the revenues hypothecated to the service of the loan.

XXVII. The general bond of this issue shall be deposited with the bank, and shall remain in its custody as a guarantee of the rights of the holders of the bonds of this issue until the total redemption of the loan, and as a further guarantee of such rights a copy thereof will be officially deposited with the Government of Great Britain and of the United States of America, respectively.

XXVIII. It is hereby declared that, where the context allows, the expression "the syndicate" used herein includes besides the said Ethelburga Syndicate (Ltd.) their successors, assigns, or nominees.

In witness whereof the said Señor Don Crisanto Medina and Señor Don Angel Caligaris for and on behalf of the Government of the Republic of Nicaragua and two of the directors of the said Ethelburga Syndicate (Ltd.), for and on behalf of the said Ethelburga Syndicate (Ltd.), have hereunto set their hands at Paris, this 19th day of January, 1909.

Signed by the said Señor Don Crisanto Medina and the said Señor Don Angel Caligaris in the presence of Francis M. Voules, (L. S.) Crisanto Medina, (L. S.) Angel Calisaris.

Signed by the said Otto Herbert Fuerth and the said Francis Minchin Voules in the presence of (L. S.) O. H. Fuerth, (L. S.) Francis M. Voules.

Certifico que lo que precede es copia fiel del contrato original depositado en este sindicato. Londres 5 de Mayo de 1909. Ethelburga Syndicate (Ltd.) T. M. C. Stewart, secretary.

CONTRATO COMPLEMENTARIO.

THE REPUBLIC OF NICARAGUA. *30 Mar 1909*

Agreement relating to a proposed issue of gold bonds of the Republic of Nicaragua.

An agreement dated the 30th day of March, 1909, and made between the Government of the Republic of Nicaragua (hereinafter called "the Government"), represented jointly by Señor Don Crisanto Medina, resident in Paris, and diplomatic minister of the said Republic, and Señor Don Angel Calisaris, now resident in Paris, acting in pursuance of the law of the National Legislative Assembly of the said Republic, of the 5th September, 1908, ratified by the executive power on the 11th September of the said year, and by virtue of powers of attorney given to them, respectively, on the 19th day of September, 1908, and the 16th day of September, 1908, by the minister of finance and public credit of the Government of the Republic of Nicaragua, and with the approval of the executive power of the said Republic, of the part; and the Ethelburga Syndicate (Ltd.), of 84 Bishopsgate Street, within London E. C. (hereinafter called "the syndicate"), of the other part; and supplemental to and modifying an agreement (hereinafter called "the principal agreement"), dated the 19th day of January, 1909, and made between the parties hereto, now it is hereby agreed as follows:

I. Clause 12 of the principal agreement is hereby modified and explained in the following manner; that is to say:

The bonds to be issued shall bear interest on their nominal amount at the rate of 6 per cent per annum, and the nominal amount of the loan shall be £1,250,000. The provisional certificates and bonds deposited with the bank shall be dealt as follows:

(a) The bonds of the nominal value of £500,000 reserved for the redemption and conversion of the existing English and New Orleans loans shall be delivered to the syndicate in exchange of canceled bonds of those loans at such times and in such amounts as the syndicate may require to take delivery thereof, provided always that the arrangements for the redemption and conversion of the existing English and New Orleans loans shall be made by the syndicate and that the Government shall from time to time, upon request by the syndicate, deliver to it for public issue and sales bonds so reserved.

(b) The syndicate shall discharge the loans to the Government for £50,000 and £2,300, made by the London Bank of Mexico and South America (Ltd.) and the syndicate, respectively, and accordingly provisional scrip certificates on

the bonds of this issue of the nominal amount of £100 shall, upon request, be delivered to the syndicate in respect of every £75 of the principal and accrued interest of the said two loans.

(c) The Government shall be entitled to forthwith draw bills upon the syndicate at three days' sight for the sum of £50,000 and to draw similar bills one month thereafter for the further sum of £30,000. Provisional scrip certificates or bonds of this issue shall be delivered to the syndicate upon payment therefor by means of the said bills at the rate of £75 for every £100 nominal value of provisional scrip certificates or bonds.

(d) The remaining provisional scrip certificates or bonds of this issue for approximately the nominal value of £573,590 shall be deposited with the syndicate to provide for the continuance by the syndicate as hereinafter provided of the work of constructing and equipping the railway from the Great Lake of Nicaragua to the Atlantic Ocean, which has already been commenced, and the provision of the necessary locomotives and rolling stock required for working the said railway, and shall be issued by the syndicate from time to time as they may think fit, to enable payment to be made by it, to or on account of the constructors, in respect of the work of continuing the construction and equipment of the said railway, and until such issue is made by the syndicate the bonds shall not bear interest. No part of the proceeds of the £573,590 bonds shall be applied in reimbursing the Government for any moneys already expended in connection with the part of the construction of the said railway already completed or in respect of any material already supplied.

II. The syndicate shall have complete control over the work of the construction and equipment of the railway from the Great Lake of Nicaragua to the Atlantic Ocean, which has already been commenced.

In the event of the proceeds of the said £573,590 bonds proving insufficient for the completion of the construction and equipment of the said railway and the provision of the necessary locomotives and rolling stock, the Government hereby undertakes to complete and equip the said railway out of its own resources. Provided also, that the Government will allow to the syndicate a commission of 3 per cent upon the amount of the payments made by the syndicate from time to time or to on account of the said contractors, toward the expenses incurred by the syndicate in employing engineers to superintend the work of constructing and equipping the said railway.

III. In all other respects the provisions of the principal agreement are hereby confirmed.

IV. It is hereby declared by the said Señor Don Crisanto Medina and the said Señor Don Angel Caligaris that the terms of this agreement have been duly approved by the executive power of the said Republic.

In witness whereof the said Señor Crisanto Medina and Señor Don Angel Caligaris, for and on behalf of the Government of the Republic of Nicaragua, have hereunto set their hands and the Ethelburga Syndicate (Ltd.) have caused their common seal to be hereunto affixed the day and year first above written.

Signed by the said Señor Don Crisanto Medina and said Señor Don Angel Caligaris in the presence of Francis M. Voules, (L. S.); Crisanto Medina, (L. S.); Angel Caligaris, (L. S.). The common seal of the Ethelburga Syndicate (Ltd.) was hereunto affixed in the presence of (L. S.) O. H. Fuerth, Francis M. Voules, directors; T. M. C. Stewart, secretary.

Certifico que lo que precede es copia fiel del contrato original depositado en este Sindicato. Londres, 5 de Mayo de 1909. Ethelburga Syndicate (Ltd.), T. M. C. Stewart, secretary.

Mr. MALLET-PREVOST. The Nicaraguan Congress, on September 5, 1908, passed an act, which was approved by the executive a few days later, and which authorized the executive to negotiate for a loan of £1,250,000 on the best terms that he could obtain. It authorized the pledging of the following securities for that loan. In the first place, the customs; in the second place, the Government's revenues on the liquor monopoly; and in the third place, the Government's revenues on the tobacco monopoly; in the fourth place, the existing railroad along the Pacific coast; and in the fifth place, a proposed road, when built, to connect with the Atlantic seaboard.

Some of these securities—

Senator SMITH of Michigan. And the steamboats plying on the lakes of Nicaragua?

Mr. MALLET-PREVOST. I took that as part of the railroad system. Some of these are not specifically mentioned in that law, but are brought under its operation, because the executive was authorized to also hypothecate anything which had been hypothecated for the benefit of the earlier loans of 1886 and 1904, which it was intended should be converted.

Senator SMITH of Michigan. That is, these two classes of loans that you describe are taken cognizance of in article 4 of the Ethelburga agreement?

Mr. MALLET-PREVOST. I do not remember the article, but they are taken care of in that agreement; yes. That law having been passed and approved in September of 1908, the President of Nicaragua executed two powers of attorney, one in favor of Angel Caligaris, and another in favor of a Mr. Medina, who was at that time Nicaraguan minister in London and Paris, authorizing them to negotiate this loan. It appears that those gentlemen entered into negotiations with the Ethelburga Syndicate, which is a British corporation, and finally concluded a contract with that syndicate which was executed January 19, 1909.

Senator HITCHCOCK. Will you say a little more about that syndicate? Was it just formed for this purpose or did it exist for other purposes?

Mr. MALLET-PREVOST. It existed for other purposes. I know very little about it. We have had dealings with a representative of that syndicate by the name of Otto H. Fuerth, and just who is back of him or whether anybody is back of him I do not know. A contract was negotiated with that syndicate and signed in Paris on January 19, 1909. The general terms of that contract were these: That £500,000 of bonds should be used for the purpose of retiring the earlier issues of 1886 and of 1904.

Senator SMITH of Michigan. Amounting to—

Mr. MALLET-PREVOST. I do not know what they amount to. I do not really know.

Senator HITCHCOCK. £500,000?

Mr. MALLET-PREVOST. £500,000 of the new issue was set aside for that purpose. The remaining £750,000 were to be taken by the Ethelburga Syndicate at 75.

Senator WILLIAMS. At 75?

Mr. MALLET-PREVOST. At 75, and that money was to be paid in this way: There was £50,000 which was at that time owing to the London Bank of South America and Mexico. There was £2,300 that were owing to the syndicate itself. Those debts were to be wiped out, bonds given in payment of them at 75. The Government of Nicaragua was to receive the balance of the purchase money of those bonds, amounting to £510,000, in monthly instalments, £50,000 to be paid at once, and £50,000 each month thereafter; and that contract, as I understand it, was before it was actually signed in Paris, communicated to the President of Nicaragua, approved by him, and therefore became a binding contract.

Senator POMERENE. Do I understand that the whole issue was taken on a 75 per cent basis?

Mr. MALLET-PREVOST. No; £750,000 was taken, and the other £500,000—the contract is very badly drawn and very indefinite. £500,000 were set aside for this purpose. It does not appear whether they were to be exchanged bond for bond or cash to be presented, or what it was.

Senator SMITH of Michigan. No; there is nothing to show what the value was.

Mr. MALLET-PREVOST. No; it is a very badly drawn contract.

Senator WILLIAMS. That is the amount they thought would be sufficient to take up the bonds at whatever was then the market value?

Senator POMERENE. What was then the rate of interest on those bonds?

Mr. MALLET-PREVOST. Six per cent.

Senator HITCHCOCK. Do you know what was the market value of this old existing bonded debt?

Mr. MALLET-PREVOST. No; I do not. I think you will probably get that from the bankers when you come to examine them. Those are not matters which I have in mind. I have known at times——

Senator HITCHCOCK. Do you know, as a matter of fact, whether interest was then being paid on it?

Mr. MALLET-PREVOST. That I do not know. Mr. Kohlmann calls my attention to an inaccuracy in my testimony. The loan of £50,000 to the London bank and of £2,300 to the Ethelburga Syndicate was not mentioned in this contract. That was in a second contract to which I shall refer in a moment. In other words, the Ethelburga Syndicate under this first contract agreed to purchase the whole of £750,000 of bonds at 75, agreeing to pay £50,000 at once and £50,000 a month until the purchase price should be paid. That contract having been concluded, apparently new negotiations were started by Medina and Caligaris, with the Ethelburga Syndicate, which resulted in a so-called supplementary contract a couple of months later, dated March 30, 1909. That contract modified the first contract in very important respects. In the first place, it provided that the loan of the London bank of £50,000, and a loan of the Ethelburga Syndicate of £2,300 should be paid out of the proceeds of the loan.

In the second place, it provided that Nicaragua should receive the sum of only £80,000 more, leaving something over £400,000 which was left really in the air. The contract does not even obligate the syndicate to take that amount, but whatever it was, or whatever were to be the proceeds of the sale of those bonds, those proceeds were to remain in the hands of the Ethelburga Syndicate or of some London bank for the construction of the railroad from the Atlantic coast into the interior, and the construction of that railroad was placed entirely in the control of the Ethelburga Syndicate.

Senator HITCHCOCK. Why was it that Nicaragua consented to the modification of the contract?

Mr. MALLET-PREVOST. I do not think she ever did, and I think that contract was invalid. That contract was made by Caligaris and by Medina. So far as I can ascertain, it was never approved by the executive of Nicaragua, and certainly was never approved by congress. It was absolutely beyond the scope of the law which had authorized the loan, and I do not think—it was my professional opinion at the time I prepared this memorandum, and is my opinion

still—I do not think that Medina and Caligaris had any more authority to make that contract than any of you gentlemen here present.

(The memorandum referred to by Mr. Mallet-Prevost is as follows:)

MEMORANDUM CONCERNING ETHELBURGA SYNDICATE LOAN.

[Prepared by Mr. Mallet-Prevost in 1911 and referred to above.]

On September 5, 1908, the Nicaraguan Congress passed an act which was approved by the executive on September 11, 1908, decreeing among other things as follows:

[Translation.]

"ARTICLE 1. The executive is hereby authorized to contract a loan abroad for the amount of £1,250,000, nominal, in gold bonds on the most favorable conditions possible of issue, interest, and amortization. The proceeds of this loan are destined for the redemption of the English loan of 17th December, 1886, as modified on the 12th September, 1895, and of the American loan of 4th April, 1904, and with preference for the completion of the railway from San Miguelito to Monkey Point.

"ART. 2. The executive is hereby authorized to guarantee the complete redemption of this loan, principal and interest with a first charge upon—

(a) The sums payable to the Government by the Compania de Aguardiente Lda. de Nicaragua for its lease annuity.

(b) The sums payable to the Government by the Sindicato de Tabaco Limitado for its lease annuity.

(c) The railway from the Great Lake to the Atlantic, now in course of construction.

(d) The guarantees at present assigned to the two foreign loans referred to in article 1 hereof.

(f) The customs duties belonging to the Government of Nicaragua.

"ART. 3. The contract for the loan shall not become effective until after having been examined and approved by the executive power."

On September 16, 1908, a power of attorney was executed by Ernesto Martinez, minister of finance and public credit of the Government of the Republic of Nicaragua, whereby in such capacity and acting on behalf of the said Government of Nicaragua, and in accordance with special instructions from the President of said Republic, he granted special and general power to Angel Caligaris—

"so as to obtain, in common accord with Don Crisanto Medina, diplomatic minister of Nicaragua, in France and England, from the bankers of London, Paris, or elsewhere, a loan up to the amount of £1,250,000 on the most favorable conditions possible regarding issue, interest, and amortization, and to that effect he empowers him to contract the said loan at the price of issue, rate of interest, length of time and form of amortization, on the terms and conditions which he may think more convenient for the said Republic of Nicaragua,"

and whereby he also authorized

"the said Señor Caligaris to arrange, cancel, and extinguish the foreign debt which prevails on the earnings of the national railway, i. e., the loan contracted in London on the 17th of December, 1886—modified by the agreement of the 12th of September, 1895; and the loan of the 4th of April, 1904, secured in this city with a group of American bankers on the guaranty of the revenue of the Bluefields and Cabo de Gracias a Dios customhouses; that in order to guarantee the repayment of the said loan of £1,250,000 sterling and the corresponding interests, he specially authorizes the said Señor Caligaris to constitute a first and preferent charge upon the properties, duties, and revenues mentioned in article 2 of the legislative decree of the 5th of September of the current year 1908, which authorizes the Government of Nicaragua to contract a loan for £1,250,000 sterling, which decree is inserted in the body of this document."

On September 19, 1908, a similar power of attorney was executed in favor of Crisanto Medina to act jointly with Angel Caligaris.

By decree dated November 24, 1908, the President of the Republic, through Ernesto Martinez, minister of finance and public credit, pursuant to article 3 of the law of September 11, 1908, approved the contract consisting of 28 articles agreed upon between Crisanto Medina and Angel Caligaris, acting on behalf of the Republic, and the Ethelburga Syndicate (Ltd.), the contract so approved being presumably a draft of the contract as afterwards executed on January 19, 1909.

FIRST ETHELBURGA SYNDICATE CONTRACT DATED JANUARY 19, 1909.

This contract was executed in Paris, the Government of Nicaragua being represented by Crisanto Medina and Angel Caligaris, acting under powers of attorney which are in this instrument described as having been executed in their favor by the minister of finance and public credit on September 19, 1908, whereas the fact was that the power of attorney in favor of Angel Caligaris bears date September 16, 1908.

This contract authorized the issue of £1,250,000 of 6 per cent gold bonds payable in 35 years with 1 per cent sinking fund redeemable at any time at par upon six months' notice. The issue was secured as authorized by the law of September 11, 1908. Article 12, of this contract, is as follows:

"The bonds to be issued shall bear interest on their nominal amount, at the rate of 6 per cent per annum, and the nominal amount of the loan shall be £1,250,000.

"The syndicate shall, with the bonds and the proceeds of the public issue thereof, discharge the loans to the Government of £50,000 and £2,300 made by the London Bank of Mexico and South America (Ltd.), and the syndicate, respectively, with interest thereon, and arrange the redemption or conversion of the existing English loan of 1886 and New Orleans loan of 1904, and provide the Government with the sum of £510,000 in cash. The provisional certificates and bonds deposited with bank shall be dealt with as follows:

"The bonds of the nominal value of £500,000 reserved for the redemption and conversion of the existing English and New Orleans loans shall be delivered to the syndicate, in exchange for canceled bonds of those loans, at such times and in such amounts as the syndicate may require to take delivery thereof, provided always that the arrangements for the redemption and conversion of the existing English and New Orleans loans shall be made by the syndicate, and that the Government will, from time to time, upon request by the syndicate, deliver to it for public issue and sale bonds so reserved. The remaining bonds of the nominal value of £750,000 shall be purchased by the syndicate, and delivered to it upon payment to the bank, for account of the Government, at the rate of £75 for every £100 nominal value of bonds. The first payment to the Government hereunder shall be for the amount of not less than £50,000, and be made within 30 days from the date hereof, and subsequent payments shall be made by the syndicate at the rate of not less than £50,000 per calendar month."

This contract of January 19, 1909, comes within the scope of the authority granted by the act of September 11, 1908, and assuming that it corresponds with the contract as approved by the Executive by decree of November 24, 1908, above mentioned, this contract of January 19, 1909, is valid and binding upon the Republic.

SECOND ETHELBURGA SYNDICATE CONTRACT, DATED MARCH 30, 1909.

This second contract was executed on behalf of the Republic of Nicaragua by Medina and Caligaris, acting under powers of attorney of September 19, 1909, and September 16, 1909, above referred to, and purporting to modify the first contract by providing—

(1) A different disposition of the proceeds of the loan, and

(2) A transfer to the Ethelburga Syndicate of the control over the construction of the proposed railway from Lake Nicaragua to the Atlantic Ocean.

These modifications constituted restrictions upon the rights of the Republic under the original contract. No additional obligations are assumed by the Ethelburga Syndicate which would constitute a consideration to the Republic for consenting to such restrictions.

The place of the execution of the supplemental contract does not appear, and the only evidence of the approval of this contract by the Executive of the Republic, as required by the law of September 11, 1908, is a certificate dated May 2, 1909, by Crisanto Medina as minister of Nicaragua in London

and Paris, certifying that the President of the Republic of Nicaragua, in a cablegram addressed to said legation, dated May 1, 1909, had approved the additional contract executed between Caligaris and Medina in the name of the Republic and the Ethelburga Syndicate, making certain modifications in the one originally executed between the same parties.

Upon this state of facts the following objections may be raised to any claims of the Ethelburga Syndicate, based upon the second contract of March 30, 1909:

1. The first contract having been executed and delivered in accordance with the provisions of the law of September 11, 1908, the special powers which that law had vested in the Executive and the special powers which the Executive had in turn delegated to Medina and Caligaris had been exercised; and, because the purposes of the law had been accomplished, those powers so exercised had become exhausted. The result of this was that neither the Executive nor his agents remained vested with any authority to execute any further contracts.

2. The law of September 11, 1908, authorized the executive to contract a loan "on the most favorable conditions possible." It is to be presumed that the contract of January 19, 1909, was the most favorable contract that the executive could at that time secure. Having executed this, he was clearly powerless to forego any of the advantages which under that contract he had secured for his Government. Even, therefore, assuming that the first proposition above stated should not be sound, and that, contrary to our contention, the executive still remained vested with power to make a second contract, such second contract could be valid only in case it was more favorable than the first contract, otherwise it would be expressly in conflict with the provisions of the law of September 11, 1908, which required that the "most favorable conditions possible" be secured.

It is beyond dispute that the second Ethelburga contract is distinctly less favorable to Nicaragua than is the first. By reducing the amounts of cash to be paid and by extending the periods of payment Nicaragua was deprived of the use of funds. By granting to the syndicate a voice in the disposition of the proceeds of the loan, the liberty of Nicaragua was expressly curtailed.

3. The agreement of March 30, 1909, is probably void on account of lack of consideration moving from the Ethelburga Syndicate to the Republic, since all modifications contemplated by said agreement constituted restrictions upon the rights of the Republic under the original contract, while no additional obligations were assumed by the Ethelburga Syndicate.

Senator HITCHCOCK. Under which contract are they operating now by the terms of which the Ethelburga Syndicate gets certain of the customs receipts?

Mr. MALLET-PREVOST. By a totally different contract which we negotiated in settlement of all this. What the Ethelburga Syndicate did was to make the payments which I have referred to as called for under this second contract, and then it paid into a bank in London, the Anglo-South American Bank, a considerable sum of money, over £400,000, which represented the balance of the purchase price of these bonds, and which it refused to let Nicaragua have, claiming that it held the same for the purpose of the construction of the railroad. That was the situation so far as the Ethelburga Syndicate was concerned when we came into the negotiations.

Senator SMITH of Michigan. The railroad had not been constructed?

Mr. MALLET-PREVOST. No; the railroad had not been constructed.

Senator SMITH of Michigan. Only about 12 miles of it.

Mr. MALLET-PREVOST. A very little piece of it was graded or something of that sort done; material purchased, and so on.

Senator SMITH of Michigan. But they held the securities back notwithstanding?

Mr. MALLET-PREVOST. They held this money back. There was a large amount of money deposited there in London which the Ethel-

burga Syndicate would not give up. The Ethelburga Syndicate was trying to negotiate this very loan for which we made a bid, and was using that money there as a club on Nicaragua for the purpose of getting the loan.

Senator HITCHCOCK. Was Nicaragua paying interest on that money?

Mr. MALLET-PREVOST. It had been and did continue to do so up to July 1, 1911, when it first defaulted, and then what the Ethelburga Syndicate did was to take, without any authority, money from that fund deposited in London and pay that defaulting coupon.

Senator WILLIAMS. They took it to pay what?

Mr. MALLET-PREVOST. Paid the coupon of July 1, 1911, upon which Nicaragua had defaulted. In the fall of that year of 1911 we started to negotiate a settlement of that question with the Ethelburga Syndicate, and Mr. Fuerth came over from London to negotiate.

Senator SMITH of Michigan. He came to you?

Mr. MALLET-PREVOST. I think he went to Brown Bros. I do not remember just how we first came in touch, but we had extended negotiations. We asked him for his authority from the Ethelburga Syndicate, and he said, "Why, I am the whole syndicate," and so we went ahead and we negotiated a contract with him which was substantially this—and I ought to preface what I will say about that contract with a few remarks. Whatever may have been the attitude of the Ethelburga Syndicate, and however much one may criticize its conduct with relation to this matter, as a matter of fact the bonds had been placed with the public and were in the hands of innocent purchasers for value, and the bonds themselves were perfectly valid. There was no question in our minds about their validity.

Senator SMITH of Michigan. That is, for value they were bona fide?

Mr. MALLET-PREVOST. For value they were bona fide.

Senator SMITH of Michigan. In the hands of innocent purchasers, but they lacked legal warrant—

Mr. MALLET-PREVOST. No; in my opinion they were absolutely legal bonds. That is to say, the first contract that Caligaris and Medina made was a perfectly valid contract and ought to have been carried out. That is to say, it was a contract under which Nicaragua, under authority of the Nicaraguan Congress, sold to the Ethelburga Syndicate £750,000 of bonds at 75, and the Ethelburga Syndicate sold those bonds to the public, and they were in the hands of the public. It was a perfectly legal issue.

Senator POMERENE. They were negotiable in form?

Mr. MALLET-PREVOST. They were negotiable.

Senator WILLIAMS. What you said a moment ago about an invalid contract related to this supplementary and later contract?

Mr. MALLET-PREVOST. Yes; it related to this later contract under the terms of which the Ethelburga Syndicate illegally and arbitrarily, in my opinion, were holding back funds that belonged to Nicaragua. Our main purpose in entering into the negotiations was, in the first place, to see what benefits, if any, we could secure for Nicaragua, so far as the bonds themselves were concerned, through a reduction of their par value or a reduction of interest, or otherwise, and, in the second place, to get for Nicaragua the benefit of the fund which was in London, and really belonged to her, and which would

have been obtained, in my opinion, as the result of a lawsuit, if we had cared to institute a suit in the courts of Great Britain for that purpose.

Senator SMITH of Michigan. As a matter of fact, you say that they were holding back funds, the Ethelburga Syndicate and Mr. Fuerth? As a matter of fact, they were waiting an opportune revolution to ripen their bonds into life, were they not?

Mr. MALLET-PREVOST. That I do not know.

Senator SMITH of Michigan. That is not a very far guess, is it?

Mr. MALLET-PREVOST. I think it is, Senator, if you will pardon me, because those bonds were not in their hands. Those bonds they had disposed of. They were in the hands of the public.

Senator SMITH of Michigan. Let me call your attention to testimony taken under oath—

Senator WILLIAMS. You mean these first bonds were in the hands of the public. You do not mean the £400,000?

Mr. MALLET-PREVOST. The £750,000, as I understand, had been sold by the syndicate.

Senator WILLIAMS. But the bonds under this supplementary agreement—

Mr. MALLET-PREVOST. They were the same bonds. The second agreement did not make any new bonds. The second agreement—

Senator WILLIAMS. What were the bonds that the Ethelburga Syndicate were holding and out of which they paid these coupons?

Mr. MALLET-PREVOST. The bonds under the first contract. The second contract merely provided how the proceeds of the sale of those bonds should be disposed of. It had nothing to do with the bonds themselves.

Senator WILLIAMS. Then you are referring to the proceeds of the sale of the bonds?

Mr. MALLET-PREVOST. Exactly.

Senator WILLIAMS. I understand it.

Senator SMITH of Michigan. I do not want to change the course of your talk, but I hold in my hand a document, Senate resolution No. 385, and some testimony taken in accordance with this authority, and a quotation from a letter dated Paris, July 8, 1910, from Mr. Medina, at that time the Nicaraguan minister in Paris, was he not?

Mr. MALLET-PREVOST. Yes.

Senator SMITH of Michigan. Did you know him?

Mr. MALLET-PREVOST. No; never.

Senator SMITH of Michigan. He writes to the President of the Nicaraguan Republic, as follows:

[Telegraph Medina, Paris.]

Confidential.

LEGATION OF NICARAGUA,

Paris, July 8, 1910.

His Excellency JOSE MADRIZ,

President of the Republic, Managua.

DISTINGUISHED FRIEND: I have received nothing from you and am without important news of the war. The European press has mentioned during the past week only the shooting in Bluefields of a Gen. Matumy, accused of treason to the revolutionary cause, and certain Machiavelian plans of the department of state in connection with a group of Yankee bankers.

In corroboration of the latter I will say that I have knowledge of two private letters written by Mr. Hopkins to Mr. Fuerth, president of the Ethelburga Syndicate, who is an intimate friend of his. They bear date June 10 and 21.

This Mr. Hopkins is head of a firm of lawyers in Washington which at present enjoys great influence with the Government through the intimate cordiality of their relations with Messrs. Taft and Knox, and therefore it should be supposed that what he says is by inspiration of said gentlemen.

Mr. Hopkins, in these letters, maintains that you are lost because the American Government is firmly resolved not to permit you to continue in the Presidency, and in view of this conviction he claims that the only practical, patriotic, and honorable solution for you is to agree with Gen. Estrada upon the deposit of the Government in a proper person—

Senator WILLIAMS. To whom is that letter written?

Senator SMITH of Michigan. This is a letter written by the Nicaraguan minister in Paris to the President of the Nicaraguan Republic.

Senator WILLIAMS. I say, who was he at that time?

Senator SMITH of Michigan. Mr. Medina.

Senator ROOT. Who was the President?

Senator SMITH of Michigan. Jose Madriz—Dr. Madriz. What I said was that they were waiting a favorable opportunity to ripen these securities, and without reading the full text of the letter, which is part of the evidence heretofore taken under oath, I call your attention to that statement, and ask you whether you think that they had some hope from any negotiations that you had with them that these Ethelburga bonds would ripen into an actual asset.

Mr. MALLET-PREVOST. Of course, I do not know what the Ethelburga Syndicate had in mind. I do not know what they expected. I do not know especially what they expected in 1910, when I had no connection of any kind with the subject. I do not know what the condition of the purchase of those bonds was at that time. All I know is that when we took the matter in hand for the purpose of negotiating a settlement on behalf of Nicaragua that there was a large sum of money deposited in London, which we were informed was the proceeds of the sale of those bonds, and we entered into the negotiations for the purpose of getting the most benefit we could for Nicaragua out of that situation as we found it.

Senator SMITH of Michigan. In those negotiations, did Mr. Hopkins figure at any time?

Mr. MALLET-PREVOST. Never.

Senator SMITH of Michigan. Only Mr. Fuerth?

Mr. MALLET-PREVOST. Only Mr. Fuerth, and I believe that he consulted Coudert Bros., although they never appeared at any of the conferences.

Senator WILLIAMS. You mean he consulted them as attorneys?

Mr. MALLET-PREVOST. As attorneys. The negotiations with Mr. Fuerth resulted in a contract.

We came to an agreement with the Ethelburga Syndicate on December 9, 1911, an agreement which, I might say in advance, was never carried out. The agreement that was carried out was subsequently negotiated, and therefore the terms of this agreement are not particularly important, but I will give them very briefly. The face value of the bonds was to be—the agreement was made subject to the approval of a certain number of the holders of the bonds, I think of a million pounds. That is to say, when the holders of a million pounds of bonds had deposited their bonds, and had signified their

acceptance of the terms of this agreement, it should become effective. Those bonds were to be stamped so as to show that they were under the terms of this contract. Their face value was reduced to 85 per cent. The interest continued at 6 per cent.

Secretary BRYAN. Were those the bonds that had been sold for 75 per cent?

Mr. MALLET-PREVOST. Yes. Furthermore, it was stipulated that the Ethelburga Syndicate and the holders of those bonds should waive all security which had been granted to them under their contracts. That is, the liquor monopoly, the tobacco monopoly, the railroads, and so on, and should only have the customs as a security, and it was agreed that those customs should continue to be collected as they were being collected under the treasury bills agreement with Brown Bros. and Seligman. That is to say, by an American collector general, and if that system of collection should at any time cease the bonds should go back to par.

Senator HITCHCOCK. At what discount were they to be?

Mr. MALLET-PREVOST. They were to be at 85. It was furthermore agreed that the sum which was deposited in London, and which at that time amounted to about £371,730, with interest, should be turned over to the bankers for the benefit of Nicaragua.

Senator POMERENE. May I ask you a question if it will not interrupt you? These bonds, as I understand, were to be adjusted on a basis of 85 per cent. I am correct in that, am I not?

Mr. MALLET-PREVOST. Not to be adjusted. Their face value was to be reduced to that, and they were to be left outstanding.

Senator POMERENE. You made a statement a while ago that the syndicate had disposed of these bonds. Did you have the consent of the bona fide holders?

Mr. MALLET-PREVOST. It was conditioned on their coming in and approving it.

Senator POMERENE. I missed that.

Mr. MALLET-PREVOST. The Ethelburga Syndicate also surrendered the claim which it claimed to have under that second contract, to construct a railroad, and the syndicate and the Republic were to exchange mutual releases. In other words, what we secured was practically all we could have hoped to secure as the result of a litigation to get this money, and in addition to that we secure a reduction of the face value of the bonds from par to 85 per cent.

Senator WILLIAMS. I understand that Nicaragua was at liberty at any time to enter the market and pay them for those bonds?

Mr. MALLET-PREVOST. Yes; to retire them at 89, and after 1922 at 85, and they could buy them at any price.

(Copy of the full text of the contract of December 9, 1911, between the Republic, the Ethelburga Syndicate, and assenting bondholders appears in the appendix.)

Senator HITCHCOCK. What was the inducement you could offer the Ethelburga Syndicate to make this scaling down?

Mr. MALLET-PREVOST. We simply said that if they did not do it we were not going to pay interest on their bonds. We took a high-handed position in this matter. We told them that we considered this contract was a perfectly invalid contract, and if they did not make a settlement with us we were going to sue them in the English courts.

Senator SMITH of Michigan. The effect of that was to bear the price, was it not?

Mr. MALLET-PREVOST. No; I think not. I think when you come to see the prices of those bonds there was not very much fluctuation between the highest and the lowest. I was looking at the figures the other day, and it was only about 20 points. I think the lowest was 62 and the highest 82.

Senator SMITH of Michigan. You are speaking now of the market fluctuation?

Mr. MALLET-PREVOST. Yes.

Senator SMITH of Michigan. I am speaking now of the effect upon private holders. It must have been to bear their value, a statement that they were not valid?

Mr. MALLET-PREVOST. We did not put those statements out to the public. Those were statements we made use of in our private conferences with Mr. Fuerth.

Senator SMITH of Michigan. Mr. Fuerth, as the president of the Ethelburga Syndicate, must have felt that the value of those bonds was in your hands when you said you would withhold the customs and would not pay the interest?

Mr. MALLET-PREVOST. He expressed himself very differently, Senator. I do not know what his innermost thoughts were, but he pretended to be very brave about it, and not care at all what we did.

Senator HITCHCOCK. At what time were these fluctuations you speak of, from 62 to 82?

Mr. MALLET-PREVOST. I do not know, but I know my clients have got that from the records, and they will present it to-morrow, and then you will have it accurately, and I would rather you would have it in that shape, if it is agreeable to you.

Mr. Fuerth went back to London, and then he found that the Ethelburga Syndicate, which we understood he was the body and soul of, refused to approve his contract, and the whole thing fell through. The matter was in that condition—

Senator SMITH of Michigan. What date was that?

Mr. MALLET-PREVOST. It must have been some time in January of 1912, I should say. The matter stood in that way until March or April of 1912, when Mr. James P. Cooper, the secretary of the Corporation of Foreign Bondholders of London, took the matter up and came to New York to see if he could negotiate a settlement with the bankers. We had very extended negotiations with him, which finally resulted in certain contracts, and those are the contracts which are now effective. The terms were substantially these—I have copies of all those contracts, which I will furnish the committee. Mr. Cooper refused to consider any reduction of the par value of the bonds, and we took another tack, and instead of getting a reduction of the par value we got a reduction of the interest from 6 per cent to 5 per cent, believing that that was a very substantial saving for Nicaragua, as they were 37-year bonds, and it made an ultimate saving of over \$2,000,000. The fund that was in London, that £379,000, was disposed of, briefly, as follows—at that time there was one coupon overdue and another coupon about to fall due. It was agreed that those coupons should be paid out of that London fund, also that provision should be made for the payment of still one more coupon, and for the payment of the sinking fund accrued and to accrue up to the

payment of that last-mentioned coupon. The exact amounts that were to be set aside for that purpose I have not here, but they will be furnished you by the bankers in connection with their full account of the matter. The balance of the money was to be paid over to the bankers for account of Nicaragua, and I will come in a moment to a contract which the bankers made with Nicaragua, and which dealt with the distribution of the moneys so coming into their hands. These 1909 bonds were to be continued to be secured by the customs of Nicaragua, which were to be continued to be collected as they were being collected at that time under the treasury bills agreement of September 1, 1911, it being provided that if that method of collection should at any time cease the interest on the bonds should go back from 5 to 6 per cent.

Senator SMITH of Michigan. That is, you were handling the customs yourselves?

Mr. MALLET-PREVOST. We were not handling them. We had nominated the collector who had been approved by the Secretary of State of the United States, and who had been appointed by Nicaragua, and there our intervention ceased. We were not handling it.

Senator SMITH of Michigan. How was he paid?

Mr. MALLET-PREVOST. He was paid by Nicaragua.

Senator SMITH of Michigan. Through the bankers?

Mr. MALLET-PREVOST. No; out of the customs collections.

Senator SMITH of Michigan. Was he not paid through the bankers?

Mr. MALLET-PREVOST. No; we approved, in the first place, the amount he was to get. We agreed with Nicaragua what his salary was to be, and since that time he has been conducting his office and making his reports, copies of which have been filed with the State Department here. He has full accounts showing what has been paid for salaries. So we have nothing to do with it.

Senator SMITH of Michigan. Then Mr. Ham's services are in no manner covered by any agreement you have?

Mr. MALLET-PREVOST. No; his services are personal; and we have an agreement that the customs shall be collected in that manner, but we personally have no connection with their collection.

Senator SMITH of Michigan. Oh, I understand; but this must be acceptable to you, and it was acceptable to you, and an American was put in charge?

Mr. MALLET-PREVOST. Yes; quite so.

Senator WILLIAMS. Your object in getting a man that was approved by you, I take it, was to prevent unnecessary leaks in the collections?

Mr. MALLET-PREVOST. Not only unnecessary leaks, but to introduce business methods, which they were perfectly ignorant of at that time. Even assuming that there was no dishonesty in their collection, there was great inefficiency, and experience has shown that a year or two after Col. Ham took charge he made the collections almost double. It has since gone down because of the dreadful commercial conditions that exist there to-day. They are simply deplorable.

Senator WILLIAMS. Was that due in any degree to an increase of taxation?

Mr. MALLET-PREVOST. There has been no increase of taxation. It has been due in a great measure to the revolution they had in 1912,

which played havoc with them, and the fact that their crops have been poor crops since.

Senator WILLIAMS. It has been due to an increased efficiency of administration, then?

Mr. MALLET-PREVOST. Entirely. We also secured in that settlement the privilege for Nicaragua instead of calling in those bonds at par, which was the figure fixed in the 1909 agreement—we secured for Nicaragua the privilege of calling those bonds in at 93, if she availed herself of that privilege within two years from that date; at 94, if within four years, and at 95, if within six years, and thereafter at par.

Senator SMITH of Michigan. Did you have anything to do with fixing the salary of Mr. Ham?

Mr. MALLET-PREVOST. Do you mean personally?

Senator SMITH of Michigan. No; I mean your firm?

Mr. MALLET-PREVOST. We discussed it, my firm—do you mean the bankers?

Senator SMITH of Michigan. Yes.

Mr. MALLET-PREVOST. Oh, we discussed it with Col. Ham. We discussed it here with the department, and we discussed it with Nicaragua, and it was finally agreed that that figure should be paid.

Senator SMITH of Michigan. How much?

Mr. MALLET-PREVOST. I think it is \$10,000 a year.

Senator SMITH of Michigan. In gold?

Mr. MALLET-PREVOST. In gold, and he has saved that amount to Nicaragua many times over. Under this settlement contract the Ethelburga Syndicate also surrendered its alleged right to construct the railroad from the Atlantic coast, turned over to Nicaragua whatever material had been purchased for that purpose, and releases were exchanged between the syndicate and the Government, and the balance of the money which was deposited in London, after a provision being made for the purpose I have stated, was turned over to the bankers for the benefit of Nicaragua. That contract was concluded on May 25, 1912.

The CHAIRMAN. Do you recall how much was turned over to Nicaragua for her Government?

Mr. MALLET-PREVOST. I do not, but you will get that exactly to the cent from the accounts which the bankers will present, but I can tell you in a general way what was arranged should be done with that money, because that was the subject of a private contract. What I mean is, it had nothing to do with the other, the public contract. It was a separate contract made with the bankers, concluded May 25, the same day that the settlement was made with Mr. Cooper, representing the Corporation of Foreign Bondholders. I might say that that agreement of Mr. Cooper was conditioned upon its being approved by a certain majority of the bondholders, and that approval was ultimately obtained. On behalf of Nicaragua, the contract was approved by the Nicaraguan Congress, and on behalf of the English bondholders, I think that practically up to this time every bond has come in. There may be a handful of scattered bonds that have never turned up, but practically all of the bonds have been turned in and accepted, and so it is a contract that is absolutely closed on both sides.

Senator SMITH of Michigan. Do you refer only to the Ethelburga bonds when you say that?

Mr. MALLET-PREVOST. Oh, yes; only to the Ethelburga bonds.

Senator SMITH of Michigan. You do not refer to the bonds of 1909?

Mr. MALLET-PREVOST. Those are the Ethelburga bonds.

Senator SMITH of Michigan. No.

Mr. MALLET-PREVOST. 1909—yes, Senator. You refer to the 1904 bonds or the 1886 bonds?

Senator SMITH of Michigan. I refer to the 1904 bonds.

Mr. MALLET-PREVOST. I thought you said 1909. No; that is not so with reference to the 1904 bonds.

Senator SMITH of Michigan. I refer to that bond [showing bond to witness].

Mr. MALLET-PREVOST. That is a 1904 bond. Most of those have been paid. I think very few of them are outstanding. I think we paid some recently. Seventeen thousand dollars was paid off on the 15th of June, 1914.

Senator SMITH of Michigan. To the extent they are out it has not been closed?

Mr. MALLET-PREVOST. No; I was referring to the closing of the 1909 bonds. As to the 1886 bonds, I doubt whether there are any of them outstanding.

Mr. KOHLMANN. I think there are two.

Senator ROOT. How many of the 1904 bonds?

Mr. MALLET-PREVOST. \$30,000 outstanding. There are available certain 1909 bonds which have been kept for the purpose of converting those few 1886 and 1904 bonds, and we are ready to do it at any moment they present their bonds.

Senator SMITH of Michigan. They are now due?

Mr. MALLET-PREVOST. Not those. Those that have come due have been paid.

The CHAIRMAN. Some of them are due, but they are of different maturities.

Mr. MALLET-PREVOST. Those that have come due have been paid.

Senator SMITH of Michigan. They mature in five-year periods. Here is one that has become due and that has not been paid.

Mr. MALLET-PREVOST. All the bonds that have become due have been paid.

Senator SMITH of Michigan. I think it is due whenever there is a failure to pay the coupon, is it not, and the coupons are not paid.

Senator SHIVELY. Let me see that bond.

The CHAIRMAN. When is this bond due?

Senator SHIVELY. 1919.

Senator SMITH of Michigan. It is due when there is a default on it, and it is defaulted in interest.

Senator SHIVELY. Has it been presented?

Senator SMITH of Michigan. It has.

The CHAIRMAN. Will this issue of bonds, Mr. Mallet-Prevost, be taken up by exchange, the bonds that you speak of being used for exchange with the issue of 1909?

Mr. MALLET-PREVOST. Yes; the bankers have bonds in their hands, ready at any moment to exchange them.

The CHAIRMAN. For this issue of 1904?

Mr. MALLET-PREVOST. Yes.

The CHAIRMAN. Senator Smith says this bond has been presented for payment.

Senator SMITH of Michigan. I said the coupons had been presented and they have not been paid.

Senator SHIVELY. Do you mean that there is a forfeiture under the contract?

Senator SMITH of Michigan. I do.

Mr. MALLET-PREVOST. The 15th of this month the bankers received a cable authority from the Government to pay the interest on all those bonds, and if that bond will be presented now, the interest will be paid.

Senator SMITH of Michigan. That is what Brown Bros. have written to the holders of these bonds a good many times.

Senator WILLIAMS. Who owns that bond?

Senator SMITH of Michigan. I am not going to say who owns it. I am not on the witness stand.

Senator WILLIAMS. I just asked you for curiosity.

Senator SMITH of Michigan. I will show you the bond. I am not on the witness stand, and I do not propose to be addressed in that way. Whatever I have here is the committee's.

Senator WILLIAMS. It is just idle curiosity on my part. If you do not want to satisfy it I do not care.

The CHAIRMAN. Proceed with your statement, Mr. Mallet-Prevost.

Mr. MALLET-PREVOST. The contract which was executed between the bankers and Nicaragua, and which was for the purpose of determining what disposition should be made of the funds which the bankers were to receive from the Ethelburga Syndicate, provided substantially as follows: The first one is that the bankers should waive a lien which I forgot to mention. Under the supplemental loan agreement of March 26, 1912, in addition to other security, the bankers had been given a lien, as you will recall, for that 755,000 pounds upon the Government's claim against the Ethelburga Syndicate, and the funds which were at that time deposited in London, and therefore in order to carry out the contract which we negotiated with the Corporation of Foreign Bondholders, the first thing that was necessary was for the bankers to waive their rights to that lien, which they did. It was also provided that the money required under contract with the Corporation of Foreign Bondholders for the payment of coupons, and so on, should be paid. It was then provided that \$500,000 should be set aside for the currency reform. You will recall the purpose of the March 26, 1912, contract, the supplementary loan contract, was to provide \$500,000 credit for the currency fund. That credit had not been drawn against, and therefore when this contract was made it was provided that the bankers should be released from that obligation of \$500,000, and that in place of that there should be substituted, for currency purposes, \$500,000 in cash, being part of the proceeds of the amount which had been deposited in London.

It was also provided with reference to the \$255,000 which the bankers had agreed to advance that, in so far as they had advanced it, whenever that fund should come into their hands from London that they would repay themselves so as to liquidate that. In other words, the main purpose of this, apart from lifting the lien on those

funds and making it possible to carry out the agreement with the foreign bondholders, was to reestablish the bankers in the position they were in before they made the supplementary loan agreement, which had been forced upon them by the circumstances of the case. The balance of the moneys were to be applied to the payment of overdue interest on the treasury bills, which had been issued in 1911, and to the retirement of those bills. No interest had been paid on the million and a half, and none of them, I think, had been retired up to that time, had they?

Mr. KOHLMANN. Some of them had been retired from customs collections.

Mr. MALLET-PREVOST. Well, some of them had been retired, but very few. But the balance of the proceeds of that loan was to be applied to liquidate that indebtedness, and that contract was made on May 25, 1912, and was subsequently approved by the Executive of Nicaragua pursuant to congressional authority.

Senator SMITH of Michigan. That is, you differentiate between the legislative and the executive department in that statement?

Mr. MALLET-PREVOST. Yes. The executive was acting under legislative authority, a special act having been passed.

Senator SMITH of Michigan. Under general authority or special?

Mr. MALLET-PREVOST. Special.

(The full text of the two agreements of May 25, 1912, between the Republic of Nicaragua and the Corporation of Foreign Bondholders and of two letters bearing the same date and exchanged between the parties to said agreements and of the agreement of May 25, 1912, between the Republic and the bankers is as follows:)

REPUBLIC OF NICARAGUA AND THE CORPORATION OF FOREIGN BONDHOLDERS.

AGREEMENT.

Dated May 25, 1912.

Agreement made in the city of New York this 25th day of May, 1912, between the Republic of Nicaragua, hereinafter called the "Republic," party of the first part, represented by Brown Bros. & Co. and J. & W. Seligman & Co., copartnerships doing business in the city of New York, hereinafter called the "Bankers," and the Corporation of Foreign Bondholders, of London, a body politic organized under an act of Parliament of the Kingdom of Great Britain and Ireland, hereinafter called the "Corporation," party of the second part, witnesseth:

Whereas the parties hereto are about to execute an agreement, a copy of which, marked "Schedule A," is hereto annexed; and

Whereas it is in article first of said agreement provided as follows:

"This agreement shall take effect only when and in case the Bankers and the Corporation shall declare the same to be operative. Said declaration, in order to be effective, shall be in writing, signed by the Bankers and the Corporation or by their duly authorized representatives, and shall be exchanged between the parties on or before the 30th day of June, 1912, or within such further period or periods as the Bankers and the Corporation may agree." and

Whereas it is further provided in said agreement in article seventh thereof that the sinking fund therein mentioned shall be administered in such manner and form and subject to such limitations regarding the obligations and liabilities of the bank or bankers charged with the service of the loan as may be agreed upon between the Bankers and the Corporation:

Now, therefore, in consideration of the premises and of the mutual covenants and undertakings hereinafter contained, and for the purpose of giving effect to the above provisions of Schedule A, it is hereby agreed as follows, to wit:

Article first. Agreement, "Schedule A," copy of which is hereto annexed, shall become operative and the declaration referred to in article first of said

agreement shall be made and filed only when and in case the following conditions precedent shall have been complied with on or before June 30, 1912, or within such further period or periods, if any, as the Bankers and the Corporation may agree:

(1) That the total par value of 1909 bonds deposited under said agreement, "Schedule A," shall amount to such sum as may be agreed upon between the Corporation and the Bankers.

(2) That the sum of £371,730 heretofore deposited with the Anglo-South American Bank (Ltd.), or elsewhere, with interest from December 9, 1911, to the date of payment, at a rate 1 per cent below the ruling Bank of England rate, shall be paid to Brown, Shipley & Co., in London, for account of the Bankers, who shall receive it as trustees for the purposes of this agreement. Said sum of £371,730, when so paid, shall be deemed to be the amount for which the Ethelburga Syndicate (Ltd.), of London, hereinafter called the "Syndicate," is accountable; subject, however, to verification by the Bankers of the Syndicate's accounts (the payment of July 1, 1911, coupons to be deemed a proper disbursement) between June 30, 1911, on which date the balance in the hands of the Syndicate was £393,378 17s. 11d., and December 9, 1911.

(3) That there shall be deposited with Brown, Shipley & Co. proof satisfactory to said Bankers that the Syndicate has discharged the loan of £50,000 by the London Bank of Mexico and South America (Ltd.) and the loan of £2,300 by the Syndicate, both of said loans having been made to the Republic.

(4) That there shall be delivered to Brown, Shipley & Co. for account of the Bankers the bonds or other evidence of indebtedness of the "English" and "New Orleans" loans mentioned in a certain contract dated January 19, 1909, between the Republic and the Syndicate, which said Syndicate may have redeemed or converted out of the fund of £500,000 of 1909 bonds therein agreed to be set aside for that special purpose, and that in case any portion of said "English" and "New Orleans" loans should still be outstanding there shall be delivered to said Brown, Shipley & Co. 1909 bonds to an amount which at par shall bear the same proportion to said £500,000 of bonds as the par value of the "English" and "New Orleans" loans still outstanding may bear to the total par value of such loans as they were outstanding on January 19, 1909.

(5) That any other 1909 bonds which may still remain unissued in the hands of the Syndicate shall be delivered to Brown, Shipley & Co. for account of the Bankers.

(6) That there shall be transferred, assigned, and delivered to the Republic by proper instruments all railroad and other materials which may have been purchased and paid for by the Syndicate, for account of the Republic, destined for use in connection with the projected railroad from the Great Lakes of Nicaragua to the Atlantic Ocean, together with proof satisfactory to said Bankers of such purchase and payment; also all engineering surveys, reports, maps, data, and other information which the Syndicate may have or be entitled to receive regarding said projected railroad.

(7) That all contracts not actually carried out which the Syndicate may have made either for the purchase of further materials or for work done upon or in connection with said projected railroad shall be canceled, and that there shall be delivered to Brown, Shipley & Co. an undertaking on the part of said Syndicate that it shall forever hold the Republic harmless from any and all claims which may arise by reason of any act or thing done by the Syndicate in that regard: *Provided, however,* That out of the moneys to be received as in paragraph 2 of this article set forth the Bankers shall, upon presentation of proper vouchers or other proof satisfactory to them, repay or cause to be repaid to the Syndicate, or otherwise discharge or cause to be discharged, such amounts, not exceeding £1,200 in the aggregate, as the Syndicate may pay or be liable for, on, or in connection with the cancellation of, certain contracts for services between the Syndicate and two of its engineers.

(8) That the Syndicate shall release the Republic from any and all liabilities and obligations existing prior to the date hereof, and shall cancel all contracts or concessions with or from the Republic which the Syndicate may have or claim to have.

(9) That there shall be delivered to Brown, Shipley & Co. for account of the Bankers all 1909 bonds heretofore purchased or redeemed by operation of the sinking fund.

Article second. The Corporation shall use its best efforts and endeavors to obtain the deposit of 1909 bonds by the holders thereof, as provided in this agreement and in agreement "Schedule A"; it shall also use its best efforts

and endeavors to cause the Syndicate to comply with the various conditions set forth in the preceding article; but in case of the failure of the Corporation to accomplish the above, no liability shall attach to it by reason of such failure.

Article third. In case agreement "Schedule A" shall not become operative as aforesaid by or before June 30, 1912, or within such further period or periods as the Bankers and the Corporation may agree, nothing herein contained shall alter or affect the present legal relations of the parties hereto to each other or the relations of the Republic to the holders of bonds known as the Republic of Nicaragua 6 per cent gold bonds, 1909, whose rights and obligations as regards each other shall continue as they were prior to the execution hereof, and in all respects the same as if the present agreement and said agreement "Schedule A" had not been made.

Article fourth. If agreement schedule A shall become operative as aforesaid by or before June 30, 1912, or with such further period or periods as the Bankers and the Corporation may agree, the Bankers shall out of the moneys to be received by them in accordance with the provisions of paragraph 2 of article first above deposit with the Corporation for the purposes mentioned in article sixth of agreement schedule A, the sum of one hundred twenty-five thousand nine hundred forty pounds (£125,940), which sum, when received, shall be held by the Corporation as a trust fund and shall be applied and disposed of by it as in said article sixth of agreement schedule A provided. All interest coupons paid by the Corporation, and all bonds purchased or redeemed as in said article sixth of schedule A provided, shall be cancelled by the Corporation immediately after such payment, purchase, or redemption, and shall thereupon be delivered to the Bankers for account of the Republic.

Article fifth. The corporation shall do or cause to be done, either directly or through such intermediaries as it may appoint all acts and things which under this agreement and under said agreement schedule A it undertakes to do.

Article sixth. The balance remaining in the hands of the Bankers out of the moneys to be received by them as provided in paragraph (2) of article first (after payments to the Corporation under article fourth above, and any payment made to the Syndicate under paragraph (7) of article first, and also any balances received by the Bankers from the Corporation under paragraph (5) of article sixth of agreement schedule A) shall, without responsibility on the part of the Corporation, be disposed of as the Bankers and the Republic may agree.

Article seventh. The sinking fund mentioned in article seventh of agreement schedule A shall be administered in the form and manner following, to wit:

SECTION. 1. The particular stamped "1909 bonds" to be redeemed on each occasion shall be determined by lot, drawings to be made at the offices of either Brown, Shipley & Co., or of Seligman Bros. in the city of London, or in such other place or places as the Bankers on behalf of the Republic may appoint. Such drawings shall be held under the direction of a representative of the Bankers acting for the Republic in the presence of a notary public, who shall officially certify to such drawings. Drawings for bonds so to be redeemed shall be held during each twelve months, beginning with July 1, 1913, on such date as the Bankers, acting for the Republic, may determine.

SEC. 2. Forthwith after every drawing to determine the particular bonds to be redeemed as aforesaid the Bankers, on behalf of the Republic, shall give notice of the bonds which have been drawn for redemption to the holders of the bonds so drawn. Said notice shall be by an advertisement to be published not less than once a week for four successive weeks in one newspaper of general circulation in the city of London and in one newspaper of general circulation in the city of Paris, to be selected by the Bankers on behalf of the Republic, and in such other newspapers and in such other cities as the Bankers may determine, the first publication to be made not later than 30 days prior to the date fixed for the redemption of said bonds, which date shall be determined by the Bankers. Said notice shall state the numbers of the bonds drawn and the time and place or places for the surrender and payment of the bonds so to be redeemed.

SEC. 3. At the time and at any of the places at which said bonds shall be stated in said notice to be payable as aforesaid the holders of the bond or bonds to be redeemed shall surrender the same to the Bankers or to their agents, acting on behalf of the Republic, with all coupons maturing after the date on which they are to be so redeemed, and upon such surrender the Bankers, acting on behalf of the Republic shall out of the sinking fund cause to be

paid to the holder of such bonds the amount payable to him in respect of such redemption. The amount required to redeem bonds drawn for redemption shall, from the date of such drawing, be held by the Bankers as a special fund for the holders of such bonds, to be paid out only on the presentation and surrender of such bonds with all coupons as aforesaid, and such bonds and coupons shall not, after the constitution of such special fund be entitled to the benefit of the other security afforded by this agreement.

SEC. 4. In case the market price of stamped 1909 bonds shall at any time be at or below par and accrued interest, the Bankers acting on behalf of the Republic, at any time before the drawing to determine the particular bonds to be redeemed as aforesaid, may, in their discretion purchase any stamped 1909 bonds out of the moneys in the sinking fund.

SEC. 5. All bonds purchased or redeemed as aforesaid shall, immediately after such purchase or redemption, be canceled by the Bankers and delivered to the Republic.

SEC. 6. All bonds drawn for redemption as aforesaid shall cease to bear interest as from the date upon which the same are to be redeemed.

Article eighth. The fund mentioned in subdivision (4) of article sixth of the agreement Schedule A, shall be applied by the Corporation to the purchase in the open market of stamped 1909 bonds at not more than par and accrued interest, or to the redemption of stamped 1909 bonds at par and accrued interest, in the same manner and form as is herein prescribed in reference to the application of the sinking fund by the Bankers; drawing for bonds to be redeemed out of said fund mentioned in subdivision (4) of article sixth of said agreement Schedule A shall be made on such date or dates prior to December 31, 1912, and at such place or places as the Corporation may determine.

Article ninth. If and when this Syndicate shall have complied with all the provisions of paragraphs (2) to (8), inclusive, of article first, the Republic shall release the Syndicate from any and all liabilities and obligations existing prior to the date hereof.

Article tenth. In so far as this agreement and agreement Schedule A provide that the Corporation, the Bankers, or Brown, Shipley & Co., or Seligman Bros., or any other banks or banking houses which the Bankers may designate shall act as trustees or custodians of any fund or as fiscal agents for the Republic with reference to the loan represented by the stamped 1909 bonds or otherwise, such trusts and agencies are subject to the following conditions:

L. They may at any time, instead of acting personally, employ and appoint such agent or agents and attorney or attorneys as they may deem desirable.

2. They shall not be answerable for the default or misconduct of any agent, attorney, bank, or banker appointed or selected by them for any purpose hereunder if such agent, attorney, bank, or banker shall have been selected with reasonable care, nor for anything whatever in connection with such trusts or agencies, except for their own willful misconduct.

3. They shall only be chargeable for such moneys as may be actually received by them from or for account of the Republic.

4. They shall be protected in acting upon any notice, request, consent, certificate, bond, or other paper or document believed by them to be genuine.

5. They, or any of them, may withdraw and resign as trustees or fiscal agents by giving reasonable notice to the Republic of such intention, specifying the date when it is desired such withdrawal shall take effect. In case they shall so withdraw or resign a successor or successors shall be appointed by the Republic. These provisions shall severally apply to each of the two firms constituting the bankers hereunder, except that in case of the withdrawal or resignation of either of said firms the remaining firm shall continue to be trustee or fiscal agent, and so long as such firm shall so continue no successor to the firm which may have thus withdrawn or resigned shall be appointed.

6. In the custody of moneys hereunder they shall be liable only as bankers.

Article eleventh. The Bankers may, on behalf of the Republic, consent to any change in this agreement or agreement schedule A, and may, in their discretion, waive on its behalf performance by other parties of any stipulation or condition in said agreements contained.

Article twelfth. This agreement shall bind, and is for the exclusive benefit of, the parties hereto. Nothing herein contained, either by way of recital or otherwise, shall be deemed or construed as an admission by the Republic in favor of the holders of any 1909 bonds or of the Ethelburga Syndicate (Ltd.), or of any other person or corporation, nor as creating any trust or obligation in favor of, or conferring any privilege or benefit whatsoever upon, any holders or

owners of any 1909 bonds or any creditor or concessionaire of the Republic or any person or corporation claiming to be such creditor or concessionaire.

Article thirteenth. This agreement shall be deemed to be, and shall be construed as, a New York contract.

In witness whereof the Republic has caused these presents to be executed by the Bankers above mentioned, and The Corporation of Foreign Bondholders has caused these presents to be executed by its secretary thereunto duly authorized.

REPUBLIC OF NICARAGUA,
By BROWN BROTHERS & Co.,
J. & W. SELIGMAN & Co., *Agents.*
THE CORPORATION OF FOREIGN BONDHOLDERS,
By JAMES P. COOPER, *Secretary.*

REPUBLIC OF NICARAGUA AND THE CORPORATION OF FOREIGN BONDHOLDERS.

AGREEMENT.

Dated at New York, May 25, 1912.

Agreement made in the city of New York, this 25th day of May, 1912, between the Republic of Nicaragua, hereinafter called the "Republic," party of the first part, represented by Brown Bros. & Co. and J. & W. Seligman & Co., copartnerships, doing business in the city of New York, hereinafter called the "Bankers" and The Corporation of Foreign Bondholders of London, a body politic organized under an act of the Parliament of the Kingdom of Great Britain and Ireland, hereinafter called the "Corporation," party of the second part,

Witnesseth, that in consideration of the mutual covenants and undertakings hereinafter contained, it is hereby agreed as follows:

Article first. This agreement shall take effect only when and in case the Bankers and the Corporation shall declare the same to be operative; said declaration in order to be effective shall be in writing signed by the Bankers and the Corporation or by their duly authorized representatives, and shall be exchanged between the parties on or before the 30th day of June, 1912, or within such further period or periods as the Bankers and the Corporation may agree. In case said declaration shall not be exchanged as aforesaid, the present agreement shall be null and void, and in that event, nothing herein contained shall alter or affect the present legal relations of the parties hereto to each other, or the relations of the Republic to the holders of bonds known as the "Republic of Nicaragua 6 per cent gold bonds, 1909," hereinafter called "1909 bonds," and the rights and obligations of said parties and said bondholders toward each other shall continue as they were prior to the execution hereof, and in all respects the same as if the present agreement had not been made.

Article second. Any holders of "1909 bonds" may participate in this agreement by depositing their said bonds and all unpaid coupons with the Corporation or with such depositaries as it may appoint. Such deposit shall be made in such places and in such manner as the Corporation may determine and within such period as the Bankers and the Corporation may agree.

Article third. Upon this agreement becoming operative as aforesaid, the Corporation shall in such manner and form as the Bankers and the Corporation may determine, stamp or cause to be stamped the deposited bonds (hereinafter called stamped or assenting bonds), and also all coupons attached thereto, maturing on and after July 1, 1912.

All bonds and coupons so stamped shall be subject in all respects to the provisions of this agreement and the acceptance of such bonds by the depositors and successive holders thereof shall constitute an acceptance by such depositors and holders of this agreement.

Article fourth. If and whenever the present agreement shall become operative as aforesaid, the interest upon all "1909 bonds" stamped hereunder, represented by coupons maturing on and after July 1, 1912, shall ipso facto be and become reduced from six (6) per cent, the present rate, to five (5) per cent, and in that case the Republic hereby pledges its faith and credit to the due and punctual payment of the par value of said bonds when due, and of interest thereon in the meantime at the rate of five (5) per cent per annum. Said reduction, however, is agreed to only upon the following conditions:

(1) That so long as any of the said stamped 1909 bonds, remained unpaid the customs revenues of the Republic shall continue to be collected by a collector general of customs approved by the Secretary of State of the United States, and appointed by the Republic; and

(2) That from the 1st of January, 1913, the proportionate amount required to be provided for the payment in gold in Europe of the interest and sinking fund of the assenting bonds and the expenses of the debt service shall be remitted every month direct by the collector general of customs to the Bankers in New York, or to the bank or banks in Europe charged with the service of the debt, in such way that the entire sum necessary to cover each half-yearly payment of interest and sinking fund, as hereinafter stipulated, shall be in hand at least a fortnight before such payment falls due.

The Republic hereby agrees that so long as any of said stamped 1909 bonds remain unpaid said collections by the collector general shall continue to be made and remitted in the manner above stated. The Republic hereby also recognizes the right of the Bankers and the Corporation to apply to the United States of America for protection against violation of the provisions of this agreement and for aid in the enforcement thereof.

Article fifth. After January 1, 1913, and until paid, the stamped 1909 bonds, the reduced coupons, and the sinking fund hereinafter mentioned shall, in lieu of any other security, be secured by a first lien upon the entire customs revenues of the Republic. So long, however, as the Republic shall make the monthly remittances required for the service of the loan the balance of such revenues shall be available for the general purposes of the Republic.

The Republic undertakes not to affect or diminish in any way the value or efficiency of the security thus pledged to the assenting bondholders.

The assenting bondholders hereby accept said customs revenues, collected and administered as aforesaid, as the sole security for the payment of the stamped 1909 bonds, the reduced coupons, and the sinking fund, and hereby waive and release any other security or any other claims or charges upon real or personal property.

Article sixth. Upon this agreement becoming operative the Bankers shall deposit or cause to be deposited with the Corporation the sum of £125,940, which shall be held in trust by the Corporation and by it applied and disposed of as follows:

(1) £38,440 or so much thereof as may be necessary to the payment of the unreduced coupon which came due January 1, 1912, upon all stamped 1909 bonds and upon all bonds heretofore redeemed and also to the payment of interest at the rate of 5 per cent per annum upon the amount represented by said coupon, such interest to be calculated from January 1, 1912, to the date when said payment is first announced.

(2) £31,250, or so much thereof as may be necessary, to the payment of the reduced coupon due on July 1, 1912, upon all stamped "1909 bonds" and upon all bonds heretofore redeemed.

(3) £31,250, or so much thereof as may be necessary, to the payment of the reduced coupon due on January 1, 1913, upon all stamped "1909 bonds" and upon all bonds heretofore redeemed.

(4) £25,000, together with the interest payable under paragraphs (1), (2), and (3) of this article on all bonds heretofore redeemed, representing the sinking fund corresponding to the years 1911 and 1912, shall be applied to the purchase or redemption of stamped "1909 bonds" in such manner and form as may be agreed upon between the bankers and the corporation as most economical for the Republic.

(5) Any balance remaining in the hands of the Corporation on June 30, 1913, or at such later date as the Bankers and the Corporation may agree, shall be paid to the Bankers for account of the Republic.

Article seventh. Interest upon the stamped "1909 bonds" represented by the coupons maturing on and after July 1, 1913, and the principal of said stamped bonds at maturity or when redeemed by the sinking fund hereinafter mentioned shall be payable upon surrender of the corresponding stamped coupons and stamped bonds at the offices of Brown, Shipley & Co., or of Seligman Bros., in London, or of Seligman, Freres & Cie., in Paris, of Alsberg, Goldberg & Co., in Amsterdam, and at such other banks or banking houses as the Bankers on behalf of the Republic may designate for that purpose.

So long as any stamped "1909 bonds" remain unpaid, there shall be applied annually to their redemption a sum equal to at least 1 per cent of the face amount of all bonds theretofore stamped as herein provided, and also a sum

equal to 5 per cent of the face amount of all redeemed bonds. The sinking fund shall be applied by drawings for repayment at par, with accrued interest, when the price is at or above par, otherwise it shall be applied by tenders or purchases. The details connected with the administration of the sinking fund shall be agreed upon between the Bankers and the Corporation, who are also hereby authorized to determine generally the obligation and liabilities of the banks or banking houses charged with the service of the loan.

Article eighth. In the event of certain contracts with the Bankers dated September 1, 1911, or a similar financial operation as that contemplated thereby being carried into effect, the Republic hereby agrees to purchase and the holders of assenting bonds hereby agree to sell and deliver their bonds to the Republic on the following conditions:

If said purchase be effected within two years from the date when this agreement shall become operative the purchase price shall be an amount equivalent to 93 per cent. of the face value of the bonds purchased and, in addition thereto, accrued interest at the rate of 5 per cent per annum.

If said purchase be effected after the expiration of two years and prior to the expiration of four years from said date, the purchase price shall be an amount equivalent to 94 per cent of the face value of the bonds purchased and, in addition thereto, accrued interest at the rate of 5 per cent per annum.

If said purchase be effected after the expiration of four years and prior to the expiration of six years from said date the purchase price shall be an amount equal to 95 per cent of the face value of the bonds purchased, and in addition thereto accrued interest at the rate of 5 per cent per annum.

After the expiration of six years from said date the purchase price shall be an amount equivalent to the face value of said bonds and accrued interest at the rate of 5 per cent per annum.

In the case of the purchase of the stamped bonds as above mentioned, the Republic shall, through the Bankers or otherwise, arrange that the Corporation give the bondholders at least one month's notice of its intention to make the purchase, and the Corporation shall thereupon do so by public advertisement or otherwise as the Corporation may deem expedient. The amount for the purchase of said bonds shall be deposited by or for account of the Republic prior to the purchase date specified in said notice with such banks or banking houses as the Republic may determine. The amount thus deposited shall be held by said banks or banking houses as a special fund for the holders of such bonds, and shall be paid out only on presentation and surrender of such bonds with all coupons appertaining thereto. All stamped 1909 bonds shall cease to draw interest from and after the purchase date specified in the notice, and from the date of said deposit shall cease to be entitled to the benefit of the security afforded by this agreement.

The Bankers and the Corporation are hereby authorized to determine generally the obligation and liabilities of the banks or banking houses acting hereunder.

If no purchase is made under the provisions of this article owing to the financial operation above mentioned not being carried out, the redemption of the assenting bonds will be effected by the sinking fund as provided by article seventh of this agreement. In any case said stamped 1909 bonds shall be paid at maturity.

Article ninth. In case of failure on the part of the Republic to make duly and punctually any of the payments herein provided or recognized, whether of interest or sinking fund, the coupons of the assenting bonds of 1909 are ipso facto restored to their full rate of 6 per cent.

Article tenth. Except as hereby varied, the rights of the parties hereto and of the holders of 1909 bonds shall in all respects remain the same as they were prior to the execution hereof. And any provisions contained in other contracts which in any way conflict with the provisions of this agreement shall be null and void.

Article eleventh. The Bankers execute this agreement on behalf of the Republic, and assume no personal liability in so doing.

Article twelfth. This agreement shall bind and is for the exclusive benefit of the parties hereto; nothing herein contained either by way of recital or otherwise shall be deemed or construed as an admission by the Republic in favor of any other person or corporation not a party hereto, nor as creating any trust or obligation in favor of or conferring any privilege or benefit whatsoever upon any holders or owners of any such unstamped bonds or any creditor or concessionaire of the Republic, or any person or corporation claiming to be such creditor or concessionaire.

Article thirteenth. This agreement is executed by the parties hereto with the object of effecting a settlement of all differences between the Republic and the holders of bonds knowns as the "Republic of Nicaragua 6 per cent gold bonds, 1909," as well as any other persons or corporations who are interested in the adjustment of said differences.

Article fourteenth. This agreement shall be deemed to be and shall be construed as a New York contract.

In witness whereof, the Republic has caused these presents to be executed by the "Bankers" above mentioned and The Corporation of Foreign Bondholders has caused these presents to be executed by its secretary thereunto duly authorized.

REPUBLIC OF NICARAGUA,
By BROWN BROTHERS & Co.,
J. & W. SELIGMAN & Co., *Agents*.
THE CORPORATION OF FOREIGN BONDHOLDERS,
By JAMES P. COOPER, *Secretary*.

NEW YORK, *May 25, 1912.*

Messrs. BROWN BROS. & Co., and J. & W. SELIGMAN & Co.
(Representing the Republic of Nicaragua).

DEAR SIRs: Referring to two agreements bearing even date herewith between the Republic of Nicaragua and the undersigned, the undersigned hereby agrees that the amount to be received by it as payment in full for all services to be rendered under said agreements by it or its agents and for all disbursements or expenses incurred by it or its agents, including counsel fees, and including the expenses and compensation of any committee of bondholders in England, France, Spain, or elsewhere, shall be not less than four-fifths of 1 per cent, and not more than 1 per cent upon the face value of all "1909 bonds" which may be stamped under said agreements. The minimum of four-fifths of 1 per cent above mentioned shall be the amount to be paid unless the undersigned shall in writing state to you that such minimum is insufficient for its needs; in that event the undersigned shall receive such further sum not exceeding one-fifth of 1 per cent upon the face value of all stamped "1909 bonds" as it may state that it requires. The payments above described shall be made at the same time that payment is made to the Corporation of the sums applicable to interest and sinking fund or upon the subsequent request of the Corporation.

Very truly, yours,

THE CORPORATION OF FOREIGN BONDHOLDERS,
By JAMES P. COOPER, *Secretary*.

NEW YORK, *May 25, 1912.*

TO THE CORPORATION OF FOREIGN BONDHOLDERS.

DEAR SIRs: We acknowledge receipt of your letter of even date herewith relative to the services which you are to render under certain agreements this day executed between you and the Republic of Nicaragua, and relative to the payment of your compensation and expenses in that connection.

The Republic of Nicaragua hereby accepts the proposition contained in your said letter and agrees to make the payments therein expressed. To this end, the Republic and the undersigned Bankers have agreed that after the Bankers shall have received the £371,730 to be deposited with them in accordance with one of the agreements above mentioned, they shall out of said moneys pay to you the sums to which you may become entitled in accordance with the terms of your said letter.

Yours, truly,

REPUBLIC OF NICARAGUA,
By BROWN BROTHERS & Co.,
J. & W. SELIGMAN & Co., *Agents*.
BROWN BROTHERS & Co.
J. & W. SELIGMAN & Co.

REPUBLIC OF NICARAGUA AND BROWN BROS. & CO. AND J. & W. SELIGMAN & CO.

AGREEMENT.

Dated May 25, 1912.

Agreement made at the city of New York, this 25th day of May, 1912, between the Republic of Nicaragua, hereinafter called the "Republic," party of the first part, and Brown Bros. & Co. and J. & W. Seligman & Co., copartnerships, doing business in the city of New York, hereinafter called the "Bankers," party of the second part, witnesseth:

Whereas the Republic is about to enter into two agreements with The Corporation of Foreign Bondholders, copies of which are hereto annexed marked, respectively, "Schedule K" and "Schedule L"; and

Whereas it is in article sixth of said Schedule A provided that after the Bankers shall have made certain payments out of moneys to be received by them the balance of such moneys shall be disposed of as the Bankers and the Republic may agree; and

Whereas all moneys to be received by the Bankers as aforesaid are pledged to them by the Republic as security under a certain agreement, dated March 26, 1912, known as "supplemental loan agreement";

Now, therefore, in consideration of the premises, and of the mutual covenants herein contained, it is hereby agreed as follows:

First. The Bankers consent that out of the moneys to be received by them, as provided in paragraph (2) of article first of schedule K, payments may be made as provided in article fourth and in paragraph (7) of article first of said Schedule K, and to the extent necessary for that purpose the Bankers hereby waive any lien or claim on said moneys.

Second. The balance of said moneys, after making the payments aforesaid, and also any balances received by the Bankers from The Corporation of Foreign Bondholders under paragraph (5) of article sixth of the agreement, schedule L, shall be disposed of and applied as follows:

(a) To the payment to The Corporation of Foreign Bondholders for its services and expenses under said agreements, schedule K and schedule L, the amounts stipulated in a proposed letter from the said Corporation to the Bankers which is to be delivered simultaneously with the said agreements schedule K and schedule L, and a copy of which proposed letter is hereto annexed, marked "Schedule Y."

(b) To the payment of expenses of the Bankers, including counsel fees which have been or may be actually incurred by them in connection with the negotiation, completion, and carrying out of the agreements, schedule K and schedule L, and in connection with the negotiation and execution of the agreement dated December 9, 1911, between the Republic of Nicaragua, the Ethelburga Syndicate (Ltd.), and the Bondholders mentioned in said agreement; and to the payment of the expenses of the Bankers mentioned in article eighteenth of the supplemental loan agreement of March 26, 1912, and in article twelfth of the treasury-bills agreement of September 1, 1911, whether or not the Bankers purchase the issue of bonds mentioned in said article twelfth, but no compensation shall be paid out of said moneys to the Bankers for their own services.

(c) To the repayment to the Bankers of such portion of the issue of \$500,000 mentioned in article first of the supplemental loan agreement of March 26, 1912, between the Republic and the Bankers as may up to the date of said repayment have been advanced and may then be unpaid, together with interest and commissions as in said supplemental loan agreement provided; if the amount of the loan so to be repaid to the Bankers shall be less than \$500,000, any difference between such amount and \$500,000 shall be paid into the exchange fund created under the currency law of the Republic of March 20, 1912, and the Bankers shall thereupon be released from all obligations assumed by them under article first and also under article seventh, paragraph 4, of the said supplemental loan agreement of March 26, 1912, so far as said paragraph 4 relates to the above \$500,000 loan.

(d) To the repayment to the Bankers of such portion of the loan of \$255,000 mentioned in article fourth of said supplemental loan agreement of March 26, 1912, as may up to the date of such repayment have been advanced, together with interest and commissions as in said supplemental loan agreement provided; if the amount advanced and so to be repaid to the Bankers shall be less than said sum of \$255,000, any difference between the said amount of the loan and

\$255,000 shall be set aside and held by the Bankers as a separate fund for the benefit of the Republic, and shall be paid by the Bankers to the Republic for its current expenses at the rate of \$30,000 per month, as provided in said supplemental loan agreement of March 26, 1912, and the Bankers shall be released from the obligations assumed by them under article fourth and article seventh, paragraph 4, of said agreement.

(c) The balance of said moneys shall be applied to the payment of overdue interest, if any, on any treasury bills then outstanding, and to the payment and retirement of said bills so far as said balance may be sufficient for that purpose.

In witness whereof, the Republic has caused this agreement to be subscribed on its behalf by Dr. Salvador Castrillo, jr., envoy extraordinary and minister plenipotentiary of the Republic of Nicaragua near the Government of the United States, and said Brown Bros. & Co. and J. & W. Seligman & Co. have hereunto set their hands and seals the day and year above written.

This contract is executed in triplicate.

SALVADOR CASTRILLO, JR.
BROWN BROTHERS & CO.
J. & W. SELIGMAN & CO.

NEW YORK, May 25, 1912.

MESSRS. BROWN BROS. & CO. and J. & W. SELIGMAN & CO.
(Representing the Republic of Nicaragua.)

DEAR SIR: Referring to two agreements bearing even date herewith between the Republic of Nicaragua and the undersigned, the undersigned hereby agrees that the amount to be received by it as payment in full for all services to be rendered under said agreements by it or its agents, including counsel fees and including the expenses and compensation of any committee of bondholders in England, France, Spain, or elsewhere, shall be not less than four-fifths of 1 per cent and not more than 1 per cent upon the face value of all "1909 bonds" which may be stamped under said agreements. The minimum of four-fifths of 1 per cent above mentioned shall be the amount to be paid unless the undersigned shall in writing state to you that such minimum is insufficient for its needs; in that event, the undersigned shall receive such further sum not exceeding one-fifth of 1 per cent upon the face of all stamped "1909 bonds" as it may state that it requires. The payment above described shall be made at the same time that payment is made to the Corporation of the same applicable to interest and sinking fund or upon the subsequent request of the Corporation.

Very truly, yours,

THE CORPORATION OF FOREIGN BONDHOLDERS,
By JAMES R. COOPER, *Secretary*.

NEW YORK, May 25, 1912.

TO THE CORPORATION OF FOREIGN BONDHOLDERS:

DEAR SIR: We acknowledge receipt of your letter of even date herewith, relative to the services which you are to render under certain agreements this day executed between you and the Republic of Nicaragua, and relative to the payment of your compensation and expenses in that connection.

The Republic of Nicaragua hereby accepts the proposition contained in your said letter and agrees to make the payments therein expressed. To this end, the Republic and the undersigned Bankers have agreed that after the Bankers shall have received the £371,730 to be deposited with them in accordance with one of the agreements above mentioned, they shall out of said moneys pay to you the sums to which you may become entitled in accordance with the terms of your said letter.

Yours, truly,

REPUBLIC OF NICARAGUA,
By BROWN BROTHERS & CO.,
J. & W. SELIGMAN & CO., *Agents*.
BROWN BROTHERS & CO.
J. & W. SELIGMAN & CO.

REPUBLIC OF NICARAGUA TO ETHELBURGA SYNDICATE (LTD.).

GENERAL RELEASE.

Dated October 7, 1912.

To all to whom these presents shall come or may concern, greeting:

Know ye that the Republic of Nicaragua (hereinafter called the "Republic") for and in consideration of the payment or release by the Ethelburga Syndicate (Ltd.) of a fund of approximately £371,730, with interest; also the delivery of certain bonds and proof of the payment of certain loans; also the transfer of certain railroad and other materials; also the cancellation of certain contracts and concessions and of other valuable considerations, the receipt of all of which is hereby acknowledged, has remised, released, and forever discharged, and by these presents does remise, release, and forever discharge the said Ethelburga Syndicate (Ltd.), its successors and assigns, of all and from all and all manner of action and actions, cause and causes of actions, suits, debts, dues, sums of money, accounts, reckonings, bonds, bills, specialties, covenants, contracts, controversies, agreements, promises, variances, trespasses, damages, judgments, extents, executions, claims, and demands whatsoever in law or in equity which against said Ethelburga Syndicate (Ltd.) or its successors or assigns said Republic ever had, now has, or hereafter can, shall, or may have for, upon, or by—

Mr. MALLET-PREVOST. I should say that these negotiations with the committee of foreign bondholders, that the State Department was kept fully informed of them, and, finally, when they were concluded, when the contract was concluded, the bankers wrote to the Secretary of State a letter dated June 3, 1912, as follows:

JUNE 3, 1912.

HON. PHILANDER C. KNOX,

Secretary of State of the United States, Washington, D. C.

SIR: Referring to our letter to you of December 13 last, we beg to say that owing to the failure of the Ethelburga Syndicate (Ltd.) to carry out the contract of December 9, therein referred to, the same became inoperative some months ago. We have recently negotiated on behalf of Nicaragua new contracts on the same subject with The Corporation of Foreign Bondholders, and beg to hand you herewith for your information copies of the following instruments:

(1) Contract dated May 25, 1912, between the Republic of Nicaragua and The Corporation of Foreign Bondholders, containing principally such portions of the proposed settlement as affect the holders of 1909 bonds.

(2) Another contract, also dated May 25, 1912, between the Republic of Nicaragua and The Corporation of Foreign Bondholders, to the original of which a copy of the above contract (1) is annexed as Schedule A.

(3) Letter dated May 25, 1912, from The Corporation of Foreign Bondholders to Brown Bros. & Co. and J. & W. Seligman & Co., representing the Republic of Nicaragua.

(4) Letter dated May 25, 1912, from the Republic of Nicaragua and Brown Bros. & Co. and J. & W. Seligman & Co. to The Corporation of Foreign Bondholders.

(5) Contract dated May 25, 1912, between the Republic of Nicaragua and Brown Bros. & Co. and J. & W. Seligman & Co., to the original of which contracts (1) and (2) and of letter (3) above mentioned, are annexed to Schedules J., M. and Y, respectively.

The above contracts were all expressly authorized by the Republic of Nicaragua.

Respectfully, yours,

BROWN BROTHERS & CO.
J. & W. SELIGMAN & CO.

Mr. MALLET-PREVOST. During the summer of 1912, while we were waiting for the European bondholders to deposit their bonds so that the settlement with the corporation of foreign bondholders should become effective and those funds come into our hands from London,

the revolution took place down in Nicaragua, and the situation was very serious for the Nicaraguan Government. Appeals came to us almost immediately—

Senator SMITH of Michigan. That is, the revolution of Mena?

Mr. MALLET-PREVOST. Yes.

Senator SMITH of Michigan. Against Diaz?

Mr. MALLET-PREVOST. Yes. Appeals came to us almost immediately for further loans and urgent requests that the bankers should exercise the option which had been given to them to purchase 51 per cent of the railroad at \$1,000,000. On July 16, 1912, I wrote a long letter to Mr. Wands, which was occasioned by a letter which I had received a few days before from Dr. Castrillo, the Nicaraguan minister. I do not think I go far out of the way in saying it was a very hysterical letter, in which he showed that he did not appreciate the situation and showed that his anxiety was to secure assistance in the emergency in which his government was placed.

Senator SHIVELY. Who was that?

Mr. MALLET-PREVOST. Dr. Castrillo, the Nicaraguan minister here. I will furnish the committee with a copy of the full letter. It is 16 pages long, and I shall only read, with your permission, portions of it at this time. One thing that Dr. Castrillo said was that Nicaragua had parted with her railroad and had not gotten anything for it.

Senator SMITH of Michigan. Is this a private, confidential communication?

Mr. MALLET-PREVOST. Oh, no. I quote what the minister has to say on the subject, and then I say:

It is quite evident that the minister does not fully appreciate the provisions and significance of the supplemental loan agreement of March 26 last. Whatever has been done since that date has been in strict compliance with the terms of that instrument.

It is true that Nicaragua has transferred her railroad and steamship lines to Ferrocarril del Pacifico de Nicaragua, a Maine corporation; it is true that as the result of that operation Nicaragua has received and now owns not most but absolutely all the shares of that company's capital stock. The minister errs when he says that his Government "has alienated the railroad without receiving a single cent." Its alienation of the properties in question has been nothing more than a change in the form of ownership. Prior to June 19 last, upon which date Mr. Castrillo executed the deed of conveyance, the title to the railroad and steamship lines was vested directly in the Government; since then it has been vested in a corporation owned wholly by that same Government. In the first case the ownership was direct; in the second case it was indirect; in both cases it was complete. The Government has parted with nothing whatever.

And yet, notwithstanding this fact, the Government has received a very large cash consideration, which, while not technically the price of any transfer, was nevertheless paid because, among other things, the Government agreed to transfer its road in the manner above explained in order to give that additional security for the \$755,000 which the bankers obligated themselves to provide under the supplemental loan agreement.

As an essential part of the supplemental loan agreement the Government undertook to convey its road to an American corporation; to place the management of that corporation in the hands of the Bankers and to pledge all the stock of the company as collateral security for the loans which the Bankers undertook to make. In consideration, partly of this, the Bankers have advanced to the Republic for its general needs \$255,000 and have opened a credit for an additional \$500,000 to be used in the reform of the currency.

As matters stand to-day the Bankers in addition to paying out for account of Nicaragua large sums for expenses have parted with \$1,750,000 in cash of which \$1,000,000 has been deposited with the United States Mortgage & Trust

Co. and \$250,000 has been paid directly to the Government. Of the \$1,500,000 deposited with the trust company, \$910,000 has actually been drawn by the Government and used to purchase and retire about 14,500,000 pesos of Nicaraguan paper currency. Further amounts are being drawn every day for the same purpose, and when the fund out of which those drafts are paid is exhausted the Bankers have agreed and stand ready to provide \$500,000 more. Out of the same fund of \$1,500,000 deposited with the trust company \$100,000 has been paid in as capital of the bank, every share of which belongs to Nicaragua. In addition to this the new coins and paper currency which have been ordered will cost \$140,000. The result of all these operations has been to reduce the rate of exchange from above 2,000, which it was in 1911, to 1,550, at which figure it has been steady for some time. The benefits of this reduction and of a stable rate of exchange must soon be reflected in the business operations of the country.

In view of all this can the minister seriously contend that Nicaragua has not received a single cent for the transfer of the railroad?

As further bearing upon the subject permit me to quote the following provisions of the supplemental loan agreement which have determined the course recently followed:

* * * * * * *

The minister's letter of July 9 indicates a certain misunderstanding on his part as to the terms of the option which the Bankers hold for the purchase of 51 per cent of the shares of the railroad company.

The minister was urging us to exercise that option, to take this option up and pay them \$1,000,000.

The terms of that option are fully set forth in article 14 of the supplemental loan agreement, and these include the period within which the option must be exercised. While that period has a long time yet to run, I feel that the Bankers will give it their attention at the earliest possible moment, hoping thereby to find a way of helping Nicaragua out of her difficulties. More than a month ago, on June 4, the Bankers telegraphed as follows to Mr. Whitaker, their representative at Managua:

"You will assure the President that as soon as the Ethelburga settlement is concluded we shall give our immediate consideration to the question of the railroad-share option which, if resulting in purchase, will provide the Government with a large sum for immediate necessities."

Dr. Castrillo fails to see any connection between the purchase of the railroad's shares by the Bankers and the settlement with the Ethelburga Syndicate, and surmises that the delay is due to the desire of the bankers to use the money which they will receive as a result of that settlement to pay the purchase price of the shares. While there is no foundation for such an assumption, I can not find fault with Dr. Castrillo for seeking to find some explanation for the delay, since the real reason has probably not been explained to him. I mention the matter here, but only in strict confidence, because its publicity might seriously affect the negotiations with the council of foreign bondholders.

Notwithstanding the assertion of the Nicaraguan Government that the railroad is free and clear from all encumbrances, and notwithstanding the fact that no lien appears of record in the usual form, it has been authoritatively stated that the railroad has from time to time been pledged, or agreed to be pledged, for foreign debts of Nicaragua. There seems to be a question as to whether or not the holders of the 1909 bonds are entitled to that security, and it is important to have that question definitely settled before the Bankers purchase the railroad's shares. The question has never been discussed by the Bankers, either with the Ethelburga Syndicate or with the council of foreign bondholders, and I do not know whether either of those corporations is aware of the possible rights of the 1909 bondholders in that connection. However, in order to clear the matter up and to place Nicaragua in a position where she can dispose of the railroad without leaving any cloud upon her title thereto, the Bankers incorporated the following provision into the agreement of May 25 last between the Republic of Nicaragua and the council of foreign bondholders:

"The assenting bondholders hereby accept said customs revenues, collected and administered as aforesaid, as the sole security for the payment of the stamped 1909 bonds, the reduced coupons, and the sinking fund, and hereby waive and release any other security or any other claims for charges upon real or personal property."

Senator SMITH of Michigan. Who signs that?

Mr. MALLET-PREVOST. That was an extract from the agreement which he had just negotiated with the council of foreign bondholders by the bankers on behalf of Nicaragua.

Senator SMITH of Michigan. And who on behalf of the council?

Mr. MALLET-PREVOST. Mr. Cooper, representing the council of foreign bondholders of London. That contract was then being submitted for the approval of the bondholders, and naturally we did not want this information to get out at that time, because it might have upset the negotiations. We were not telling them the cards we held in our hands for Nicaragua, or, rather, the cards which they held in their hands and which they did not know of or might not have known of.

The moment the contract of May 25 becomes effective any lien to which the assenting bondholders may possibly be entitled upon the railroad will, by virtue of the above stipulation, be released. It is for this release, among other things, that the Bankers are waiting, and you will therefore readily see that there is an intimate relation between the proposed settlement and the possibility of the exercise of the Bankers' option.

It is hardly necessary for me to repeat that this information is given to you in strict confidence. I see no reason, however, why you should not communicate it to Dr. Castrillo, provided you will at the same time impress upon him the necessity of treating it as secret.

Still another point that Dr. Castrillo has evidently misunderstood is the significance of the railroad company's capitalization.

I will just say in explanation there that when we took over the railroad, of course we had not made any investigation of the value of the railroad and did not know anything about it, and we asked the Government to make some valuation so that we could issue stock in payment of it.

Senator WILLIAMS. When you say you took over the railroad you mean when you took over the management of it?

Mr. MALLET-PREVOST. I mean the management. I am much obliged to you for that correction. I mean when the American corporation—the Maine corporation—which we had organized took title to the railroad it was necessary to give that railroad a value and to fix the amount of the capital stock, and Nicaragua presented a valuation—I think it was \$3,300,000—and we simply took that without knowing anything about it, and issued \$3,300,000 of stock, which is the capital stock to-day of the railroad.

Senator WILLIAMS. And that stock was all issued at that time to the Republic of Nicaragua?

Mr. MALLET-PREVOST. Absolutely all; and we were being urged, as I said, to take up this 51 per cent option at \$1,000,000. We said that we had not had an opportunity to find out the value of this railroad. Dr. Castrillo said in this letter, "There you have got the valuation, because you took that valuation when you organized your company and issued your \$3,300,000 of stock for it." And it is in that connection that I read this:

Still another point that Dr. Castrillo has evidently misunderstood is the significance of the railroad company's capitalization. He seems to think that because the Bankers accepted at its face value the inventory and appraisal of the railroad furnished by the Government, and because they made that appraisal the basis of the company's capitalization, therefore the Bankers have full knowledge of the value of the properties and should make no further investigations.

Of course there is no relation whatever between the capitalization of the railroad and the option price. The latter is definitely fixed by article fourteenth of the supplemental loan agreement, and that price would remain the same whether the capitalization of the company had been one million or ten million dollars.

Senator SMITH of Michigan. As a matter of fact, the earnings of the company are now paying a very good dividend on that volume of stock, are they not?

Mr. MALLET-PREVOST. No, sir.

Senator SMITH of Michigan. Well, I do not know that they are paying dividends, but they are earning upon the basis of that stock—

Mr. MALLET-PREVOST. They are earning a very moderate dividend.

Senator SMITH of Michigan. How much?

Mr. MALLET-PREVOST. I will leave that to the bankers who have the figures. I would rather not mislead you.

Senator SMITH of Michigan. Mr. Douglas put it the other day at what?

Secretary BRYAN. I think he only gave his impression.

Senator SMITH of Michigan. It was about 10 per cent, was it? I said 12 or 14, and I think he said 10.

Secretary BRYAN. I would not want to quote Mr. Douglas as speaking definitely.

Mr. MALLET-PREVOST. I quoted here in the letter above mentioned from the agreement, and it might be well to read it. It reads:

Article fourteenth provides:

"For a period of 12 months from the date hereof, also during such period as * * * the Bankers shall have the right at their option to purchase, and the Republic hereby agrees at the request of the Bankers under said option to sell, transfer, convey, and assign to them, free and clear of any and all liens, charges, or incumbrances, 51 per cent of the entire capital stock of the railway and steamship company hereinbefore referred to for the price of \$1,000,000 United States gold * * * it being agreed, however, that in case the Bankers shall exercise said option and shall purchase said stock they shall advance to the company within two years following the date of said purchase at least \$500,000, to be expended on extensions and improvements of said railway and steamship lines.

Senator SMITH of Michigan. Did I gather that correctly, that within a certain period in exercising the option you reserved the right to expend \$500,000 for extensions, for betterments, and for improvements?

Mr. MALLET-PREVOST. No, sir; we did not reserve the right when we assumed the obligation to do it.

Senator SMITH of Michigan. Where was your authority for it?

Mr. MALLET-PREVOST. The bankers obligated themselves if they took up the option to pay \$1,000,000 for it, and they obligated themselves also to lend the railroad company half a million dollars more to be used in improvements on the property.

Senator SMITH of Michigan. By what security?

Mr. MALLET-PREVOST. Secured by bonds on the railroad.

Senator SMITH of Michigan. Exactly; and I say you reserved the right to expend on betterments and improvements, which would mean a renewal of ties and steel, perhaps the minimization of curvatures and grades, \$500,000, if you so determined?

Mr. MALLET-PREVOST. My only difference with you, Senator, is that we did not reserve the right; that is to say, it was nothing optional

to the bankers. They did not want to do that. "It was something demanded by the Republic. They said, "You have got to bind yourself to lend it to the company if they need it."

Senator SMITH of Michigan. That is, to lend it to the Maine company and expend it on the property?

Mr. MALLET-PREVOST. Yes.

Senator WILLIAMS. The idea at the time being to put the railroad in a paying condition?

Mr. MALLET-PREVOST. Yes, sir; to improve it.

Now, I continue in my letter and I say:

Dr. Castrillo should bear the above in mind, and should hardly expect prudent business men to part with \$1,000,000 in cash and to agree to expend half a million more upon improvements until after they have fully satisfied themselves that what they are buying is worth the price.

The following portion of my letter is rather interesting:

"Before closing, and as bearing still further on the attitude of the bankers, I quote the following from the telegram which the bankers sent to Mr. Whitaker," Mr. Whitaker being at that time their representative in Nicaragua:

Before closing, and as bearing still further upon the attitude of the Bankers, I quote the following from a telegram which the Bankers sent to Mr. Whitaker on June 4 last, with instructions to present the same to the President. The telegram was in answer to an inquiry from the President as to whether the Bankers would accept payment of the treasury bills and supplemental loan and release Nicaragua from all other obligations.

That came because we were constantly asked for more and more loans, and we refused to make them, and finally Nicaragua, in desperation, said, "Will you take what we owe you and release the security which you hold?"

And this is the answer which we made:

If we should accept the President's suggestion to withdraw, all the benefits of whatever we have done since February, 1911, and more especially since the 1st of September of last year, would be wholly lost to Nicaragua. We have striven earnestly to help Nicaragua, and we believe that the results of our efforts must soon be felt. Exchange has already become stable, and as a result of this customs receipts have greatly improved. The bank has been organized and will soon begin business; currency reform has been rendered possible and will soon be effected. The railroad will shortly be administered for the benefit of the Government, thereby increasing the Government's revenues from that source. The abandonment of all this would be an incalculable loss to Nicaragua, and would discredit her in all the financial markets of the world.

As throwing light upon our attitude in this matter—

I am reading a cable which was sent to the President of Nicaragua in answer to his request at a critical time for the Bankers to step out and let other people come in.

Senator SMITH of Michigan. By whom was the cable sent?

Mr. MALLET-PREVOST. By the Bankers to their representative in Nicaragua for communication to the President of Nicaragua. [Continuing reading:]

As throwing light upon our attitude in this matter you will call the President's attention to the way in which we have, step by step, become further and further involved in financing his country.

First, as regards the amounts of the loans. The first proposition made to us contemplated nothing more than the general loan under the convention between the United States and Nicaragua, and contained no suggestion of any temporary loan. Taking that proposition as a basis we made a bid, which was accepted.

Within a very short time thereafter came the need of more help to establish a stable currency. For this purpose we advanced one million and a half dollars in gold; doing this, however, upon the express assurance that the outstanding paper currency did not exceed ₡30,000,000, and that hence the million and a half gold which we furnished would be ample for the purposes of monetary reform and for the capital of the bank. It soon transpired that without our knowledge, and notwithstanding the assurance above referred to, the Government had made further paper issues of ₡16,000,000, thus rendering the monetary situation much more difficult. To meet this difficulty we were asked for a further credit of half a million dollars gold, which we granted.

Second, as regards the Government's necessities. At the time that we first considered the large loan we were assured by the financial agent of Nicaragua that that country could well afford to hypothecate its entire customs revenues, and that her income from other sources would be ample to meet her current budget. Upon the faith of that assurance we submitted a bid for the large loan, and upon the same faith we subsequently advanced one million and a half under the treasury bills agreement. During the visit of Messrs. Harrison and Conant to Managua they were informed by the Government that the current expenses could not be met out of the unpledged revenues, but that if the bankers would render temporary assistance by advancing monthly the sum of \$30,000 up to October 15 next the deficiency would be met. We acceded and extended to the Government a further credit of \$255,000. After this came still further requests for loans of over \$1,300,000 gold. These we felt compelled to decline, but we offered and made immediately available half the credits reserved for July, August, September, and October. Then came the President's telegram, suggesting that we withdraw wholly from the business.

It is difficult to understand how any such suggestion can be made, in view of what we have done for Nicaragua and of the many proofs we have given her of our good will.

Senator SHIVELY. What was the date of that?

Mr. MALLET-PREVOST. July 16, 1912. A copy of that whole letter was sent to the State Department the following day, and is in its files.

(The letter of transmittal to the State Department appears in the Appendix.)

Mr. MALLET-PREVOST. There is some interesting correspondence which followed closely on the heels of this, in the fall of 1912, which I think ought to be read to the committee. The first is a telegram from Mr. Huntington Wilson, as Acting Secretary of State, to the bankers, and is dated September 16, 1912, as follows:

[19117

WASHINGTON, D. C., *September 16, 1912.*

BROWN-SEIGMAN,

59 Wall Street, New York City:

For your information and consideration, but without expressing opinion or recommendation, department desires to advise you that it is in receipt of a telegram from the American minister at Managua, under date of September 10, eleven a. m., saying that the Nicaraguan Government is in urgent need of money to pay its troops and to meet other legitimate expenses which have necessarily been incurred in suppressing armed disorders; that it is considered to be inadvisable for the Government to have recourse to internal loans, which would be decidedly unpopular.

The minister requests that the bankers be acquainted with the importance of promptly advancing additional sums on equitable terms for not less than three months, during which time it is expected that normal conditions will be reestablished. Minister adds that President Diaz states he is willing to meet any reasonable requirements, and that Diaz also states that under the constitution, under circumstances such as the present, he can enter into an arrangement legally binding on the Nicaraguan Government.

HUNTINGTON WILSON,
Acting Secretary of State.

That was acknowledged by the bankers on the following day, saying, "Your telegram of September 16 has been received and will have our most serious consideration."

A few days later, on September 25, I was called on the long-distance telephone from the State Department, and the following cablegram, which the State Department had received from Mr. Weitzel, the United States minister in Nicaragua, was read to me——

Senator SMITH of Michigan. Please give the date.

Mr. MALLET-PREVOST. The cablegram was dated September 23, 1912, and it was communicated to me over the long-distance phone on September 25, 1912, as follows:

Extremely unfortunate that bankers have not seen fit to make additional loan——

They were asking, I think at that time, a million three hundred thousand dollars, then a million, and then anything. They were anxious to get anything we could give them. [Resuming reading:]

[Cablegram dated Sept. 23, 1912, from Mr. Weitzel to State Department, and communicated over the telephone to Mr. Mallet-Prevost, Sept. 25, 1912.]

Extremely unfortunate that bankers have not seen fit to make additional loan on more favorable and less complicated terms. The troops and police have not been paid and have not even received provisions, owing to lack of money to buy them, with the result that desertions and robberies are occurring, and the Government is fast losing control of the situation. Fifty thousand dollars needed immediately, and the Government has no other means of raising this money except through the bankers, or else by levying contributions, which latter method is the one adopted by the rebels, but should be avoided by the administration.

President Diaz proposes (1) that the bankers advance fifty thousand dollars gold from the customs revenue and reimburse themselves from same source under the supplementary contract——

I call the committee's attention to the fact that we were constantly being urged to exercise that option, and were urged not only to exercise it but we were not asked to pay a million dollars on the option if we would only let them have \$50,000—and a little more at a time——

Senator SMITH of Michigan. And the Government was in a very desperate condition at that time?

Mr. MALLET-PREVOST. They certainly were; and if the bankers wanted to take advantage of that situation this was the time they should have done it.

or, secondly, that the bankers exercise their option on fifty-one per cent of the railroad under an agreement to advance one hundred thousand dollars per month for five months, and the remainder at a time to be mutually agreed upon; or, third, that the bankers advance the said sum in monthly installments for five months, and take an option on the remaining forty-nine per cent of the railroad at a valuation of one million dollars.

The situation is critical, and unless relief is forthcoming, further and more serious disorders will be inevitable.

That proposition came as an offering to us.

Senator SMITH of Michigan. Is that Weitzel?

Mr. MALLET-PREVOST. Well, it is said to be. I only have it from the telephone.

Now, in answer to that the bankers sent this telegram to the Secretary of State on September 25, 1912:

NEW YORK, September 25, 1912.

HON. PHILANDER C. KNOX,

Secretary of State, Washington, D. C.:

Referring to Mr. Weitzel's telegram to you, the substance of which was today telephoned by Mr. Pierrpont to Mr. Mallet-Prevost, we beg to say that on

September 9th we submitted proposition to President Diaz, offering to immediately release one hundred thousand dollars (\$100,000) out of customs receipts, and to provide four hundred thousand dollars (\$400,000) out of funds receivable from Ethelburga Syndicate as result of settlement with council of foreign bondholders, which settlement, we believe, will very soon be consummated. This proposition, which fully meets Nicaragua's requirements, was accepted by President Diaz on September 15th. On September 17th we telegraphed fully regarding legal steps necessary to be taken in order to carry out the above plan, and at the same time instructed Colonel Ham to pay Government fifty thousand dollars (\$50,000) on account as soon as President had issued necessary executive decree. Copies of cable correspondence as above were handed yesterday to Mr. Doyle.

We are greatly surprised at Mr. Weitzel's cable, and see no reason for changing the proposition which last week was acceptable to Nicaragua. The first proposition submitted through Mr. Weitzel contemplates the release of only fifty thousand dollars (\$50,000), which is clearly insufficient. If acceded to, this would certainly soon be followed by further similar requests.

The second proposition calls for an exercise of our option at a time when conditions in Nicaragua make this most unwise.

The third proposition contemplates an entirely new loan, and would require congressional approval for its validity.

Proposition submitted by us will secure practically the same results to Nicaragua, and as it involves merely release of funds by bankers can be consummated without intervention of Congress.

BROWN : SELIGMAN.

Senator SMITH of Michigan. Who said that last?

Mr. MALLET-PREVOST. This is in the cablegram—Brown & Seligman to the Secretary of State.

Senator SMITH of Michigan. Just read that last sentence again.

Mr. MALLET-PREVOST (reading): "The proposition submitted by us will secure practically the same results to Nicaragua, as it involves merely release of funds by bankers, can be consummated without intervention of Congress." That means to say release the \$400,000, or what was going to come in from Ethelburga.

Senator SMITH of Michigan. In customs?

Mr. MALLET-PREVOST. The customs, yes; and also what was coming in from Ethelburga—"can be consummated without intervention of Congress."

Now, the following day the bankers received another telegram from the State Department signed by Mr. Huntington Wilson, as follows:

WASHINGTON, D. C., September 25, 1912.
(Received September 26, 1912.)

BROWN, SELIGMAN AND COMPANY,
New York.

Confidential and urgent reports from the legation at Managua clearly indicate that whatever financial relief you may be prepared to give the Government of Nicaragua should, to be effective, be immediate and in a form involving no delay whatever.

(Signed) HUNTINGTON WILSON.

On the following day, or on the same day, dated September 26, the bankers replied to that communication as follows:

SEPTEMBER 26, 1912.

HON. HUNTINGTON WILSON,
Acting Secretary of State, Washington, D. C.

SIR: We have the honor of acknowledging receipt to-day of your telegram, dated September 25th, in which you inform us that confidential and urgent reports from the legation at Managua clearly indicate that whatever financial relief we may be prepared to give the Government of Nicaragua should, to be effective, be immediate and in a form involving no delay whatever.

We also confirm and enclose herewith copies of our two telegrams to the department, one of yesterday and one of to-day.

While we are glad to assist Nicaragua and to cooperate with our own Government in an endeavor to restore normal conditions in that country, we feel that, in justice to ourselves, we should make it clear that we are not impelled to such action by any sense either of moral or legal obligation. We have already loaned to Nicaragua sums of money far in excess of anything that was contemplated when we signed the treasury bills agreement of September 1st, 1911, and have devoted to the interests of that country time and labor for which we can hardly hope to be adequately compensated. The present crisis in her affairs is a matter with which we can have no connection, and which can give rise to no obligation on our part. While we feel sure that no other views are entertained on this subject by the department, this would not appear to be wholly the case in Managua itself, and that must be our excuse for referring to the subject at this time. However, as you will have seen from our cable correspondence with our representative at Managua and with the National Bank of Nicaragua, Incorporated, we stand ready to help Nicaragua again, and have undertaken to do so upon terms which are apparently satisfactory to President Diaz.

Very respectfully yours.

(Enclosures.)

The result of all those urgent appeals to us was another contract which we entered into with Nicaragua on November 4, 1912. Let me see if I can very briefly state what the facts of that agreement were.

You will recall that under the supplementary loan agreement Nicaragua had, or I mean the bankers had, among other things agreed to open a credit of \$500,000 to Nicaragua to be used in connection with the exchange fund, with the currency system. You will also recall that under the agreement of May following, at the time of the settlement with the Ethelburga people, the bankers were relieved of that obligation of \$500,000, and a part of the fund that was deposited in London, it was agreed, should be used instead.

At this time we were confronted with the situation that there was no Congress in session in Nicaragua, and we were afraid to make an agreement with Nicaragua to let them have a new loan of \$400,000 because there was no authority in the Executive to make such an agreement, and in studying how to get around that and to be able to help Nicaragua, I, with considerable trepidation, finally advised that we could do it in this way, that the bankers could renounce as to \$400,000 the agreement which they had secured from Nicaragua under the May 25th contract with reference to the payment of \$500,000 into the exchange fund, thereby leaving alive their obligation under the earlier contract, the supplementary loan agreement, and that they should use \$400,000 of the money received from the Ethelburga Syndicate in helping Nicaragua out, and that is what we did under this agreement.

We also released \$100,000 that was in our hands as a result of customs collections. So we helped her out to the extent of \$500,000, and in exchange for that Nicaragua in that contract, or rather the President, agreed to give us an option at \$1,000,000 for the 49 per cent of the railroad company's stock. We felt, as regards that option, that it did not amount to very much unless it was subsequently ratified by Congress, but we took our chances because we had to do it under the circumstances if we were going to help Nicaragua at all.

Senator SMITH of Michigan. You regarded that as additional security, in a sense?

Mr. MALLET-PREVOST. It was not given as security, but as an option, as an inducement to us to do this thing. If the option turned out to be worth nothing, as it subsequently did turn out to be worth nothing, then we got nothing. We made that contract, and by virtue of that contract we actually released to Nicaragua \$250,000 of this \$400,000 and also \$100,000 of customs collections.

The full text of the above-mentioned agreement of November 4, 1912, is as follows:

THE REPUBLIC OF NICARAGUA AND BROWN BROTHERS & COMPANY AND J. & W. SELIGMAN & COMPANY.

AGREEMENT DATED NOVEMBER 4TH 1912.

Agreement, made at the City of New York, this fourth day of November, one thousand nine hundred and twelve, between the Republic of Nicaragua (hereinafter called the "Republic"), party of the first part, and Brown Brothers & Company, and J. & W. Seligman & Company, copartnerships doing business in the City of New York (hereinafter called the "Bankers"), parties to the second part, witnesseth:

Whereas, the parties hereto have heretofore entered into three agreements dated, respectively, September 1, 1911, March 26, 1912, and May 25, 1912; and

Whereas the September 1, 1911, agreement, known as the Treasury Bills Agreement, provided for the loan by the Bankers to the Republic of one million five hundred thousand dollars (\$1,500,000), represented by an issue of Treasury Bills secured by the customs revenues of the Republic; which revenues were to be and are being collected by a Collector General of Customs nominated by the Bankers, approved by the Secretary of State of the United States and appointed by the Republic; and

Whereas the Treasury Bills Agreement provided that the Collector General of Customs should remit to the Bankers the amounts collected by him as customs and that when so received by the Bankers they should, after setting aside certain sums, apply the balance to the payment of the interest and principal of the Treasury Bills; and

Whereas the March 26, 1912 agreement, known as Supplemental Loan Agreement, provided that the Bankers should open a credit of five hundred thousand dollars (\$500,000) in favor of the Republic, available exclusively for currency, purposes; and

Whereas the May 25, 1912 agreement provided that a certain fund of three hundred and seventy-one thousand seven hundred and thirty pound (£371,730) Sterling, if and when received by Brown, Shipley & Company, of London, for account of the Bankers under another agreement of the same date between the Republic and the Corporation of Foreign Bondholders, should be applied by said Bankers in part as follows:

"To the repayment to the Bankers of such portion of the loan if five hundred thousand dollars (\$500,000) mentioned in Article First of the Supplemental Loan Agreement of March 26, 1912, between the Republic and the Bankers as may, up to the date of said repayment, have been advanced and may then be unpaid, together with interest and commissions as in said Supplemental Loan Agreement provided; if the amount of the loan so to be repaid to the Bankers shall be less than five hundred thousand dollars (\$500,000), any difference between such amount and five hundred thousand dollars (\$500,000) shall be paid into the Exchange Fund created under the currency law of the Republic of March 20, 1912, and the Bankers shall thereupon be released from all obligations assumed by them under Article First and also under Article Seventh, Paragraph 4, of the said Supplemental Loan Agreement of March 26, 1912, so far as said Paragraph 4 relates to the above five hundred thousand dollars (\$500,000) loan;" and

Whereas no portion of the credit of five hundred thousand dollars (\$500,000) under said Supplemental Loan Agreement has yet been used, it resulting therefrom that under the terms of the above-quoted paragraph the five hundred thousand dollars (\$500,000) therein mentioned would, unless otherwise provided, be payable to the Exchange Fund and when so paid the Bankers would

be relieved from all obligations under the five hundred thousand dollar (\$500,000) credit mentioned in the Supplemental Loan Agreement; and

Whereas the Bankers, in order to meet the pressing necessities of the Republic, and in consideration of the agreements hereinafter set forth, are willing (1) to waive their right to apply to the payment of the principal and interest of the Treasury Bills the sum of one hundred thousand dollars (\$100,000) collected under the terms of the Treasury Bills Agreement and to release said sum for the benefit of the Republic, as hereinafter provided; and (2) to modify the terms of the May 25, 1912 agreement so that four hundred thousand dollars (\$400,000) out of the five hundred thousand dollars (\$500,000) mentioned in Article Second (c) of said agreement may be available to the Republic for its current expenses:

Now, therefore, for and in consideration of the premises and of the mutual covenants and agreements hereinafter set forth, it is hereby stipulated and agreed as follows, to wit:

First: The bankers shall forthwith instruct the Collector General of Customs to pay to said Minister of Finance out of the customs collections in his hands the sum of one hundred thousand dollars (\$100,000), which the Bankers hereby release from the lien of the Treasury Bills Agreement. It is agreed that such release shall not in any way alter or affect the terms of the Treasury Bills Agreement or the right of the Bankers to the security provided thereunder.

Second: Paragraph (c) of Article Second of the May 25, 1912 agreement between the Republic and the Bankers, is hereby modified to read as follows:

(c-1) To the repayment to the Bankers, but only to the extent of one hundred thousand dollars (\$100,000), of such portion of the loan of five hundred thousand dollars (\$500,000) mentioned in Article First of the Supplemental Loan Agreement of March 26, 1912, between the Republic and the Bankers, as may, up to the date of said repayment, have been advanced and may then be unpaid, and in addition thereto, interest and commissions as in said Supplemental Loan Agreement provided; if the amount of the loan so to be repaid to the Bankers, exclusive of interest and commissions as aforesaid, shall be less than one hundred thousand dollars (\$100,000), any difference between such amount and one hundred thousand dollars (\$100,000) shall be paid into the Exchange Fund created under the currency law of the Republic of March 20, 1912, and the Bankers shall thereupon be released, to the extent of one hundred thousand dollars (\$100,000) from the obligations assumed by them under Article First, and also under Article Seventh, Paragraph 4, of the said Supplemental Loan Agreement of March 26, 1912, so far as said Paragraph 4 relates to the above five hundred thousand dollar (\$500,000) loan.

(c-2) To the payment to the Republic of the sum of four hundred thousand dollars (\$400,000). Said sum of four hundred thousand dollars (\$400,000) shall be set aside and held by the Bankers as a separate fund for the benefit of the Republic, and shall be paid by the Bankers to the Minister of Finance of the Republic, in installments, at such times and in such amounts as may be agreed upon by the President of the Republic and the Bankers. The order of the President or of the Minister of Finance shall be sufficient authority to the Bankers to make said payments.

Third: In consideration of the release by the Bankers of the one hundred thousand dollars (\$100,000) of customs revenues mentioned in Paragraph First above, and in consideration of their agreement to modify, as above provided, the agreement of May 25, 1912, the Republic hereby grants to the Bankers the following option:

During such period as the Bankers under the provisions of Paragraph Fourteenth of the Supplemental Loan Agreement shall have an option to purchase fifty-one per cent (51%) of the entire capital stock of the Ferrocarril del Pacifico de Nicaragua, the Bankers shall also have the right at their option to purchase and the Republic hereby agrees at the request of the Bankers under said option to sell, transfer, convey and assign to them, free and clear of any and all liens, charges or incumbrances, the remaining forty-nine per cent. (49%) of the entire capital stock of said Ferrocarril del Pacifico de Nicaragua for the price of one million dollars (\$1,000,000) United States gold. The exercise of said option shall be by notice to the Republic to be given in the same manner as provided in Article Thirteenth of the Treasury Bills Agreement in which case the Executive shall deliver to the Bankers the stock so purchased.

Fourth: For the same considerations mentioned in Paragraph Third above and as a condition to the performance by the Bankers of the obligations as-

sumed by them hereunder and with a view to improving the financial conditions of the Republic and of placing the collection of her internal revenues upon an economical and effective basis, it is hereby agreed that all of the internal taxes of the Republic, including liquor and tobacco taxes, shall be collected by The National Bank of Nicaragua, Incorporated, through such agent or agents as it may designate and appoint; and to this end the Republic hereby confers upon said Bank full, ample and sufficient power and authority.

Fifth: The Bankers shall be repaid all expenses incurred by them on account of counsel fees, cabling and traveling expenses, and generally, all sums expended in connection with the matters covered by this agreement, or in connection with any and all negotiations heretofore had between the Republic and the Bankers concerning additional loans and modifications of the Treasury Bills Agreement of September 1, 1911, the Supplemental Loan Agreement of March 26, 1912, and the May 25, 1912, agreement. All such expenses shall be included among and paid at the same time and in the same manner as provided in Paragraph Eighteenth of the Supplemental Loan Agreement: They shall also be included in the provisions of Paragraph Second (b) of the agreement of May 25th, 1912.

Sixth: The option granted hereunder to the parties of the second part is intended for their joint benefit, and such option shall be exercised jointly by both firms, except that if either of said firms shall elect not to avail itself of said option privilege, such option may be exercised by and shall enure to the benefit of the other firm.

Seventh: This agreement shall be deemed to be and shall be construed as a New York contract. Its provisions shall apply to and in respect of the firms of bankers constituting the parties of the second part as said firms shall from time to time be constituted without reference to any change of membership.

In witness whereof, the Republic has caused this agreement to be subscribed on its behalf by Dr. Salvador Castrillo, Envoy Extraordinary and Minister Plenipotentiary of Nicaragua, near the Government of the United States; and said Brown Brothers & Company and J. & W. Seligman & Company have hereunto set their hands and seals, the day and year first above written. This contract is executed in triplicate.

SALVADOR CASTRILLO
BROWN BROTHERS & Co. [SEAL.]
J. & W. SELIGMAN & Co. [SEAL.]

Witness:

S. MALLET-PREVOST.

Senator SMITH of Michigan. Was there any exaction made as part of that arrangement that the constitution of Nicaragua should be changed?

Mr. MALLET-PREVOST. No, sir.

Senator SMITH of Michigan. Was it changed, as a matter of fact?

Mr. MALLET-PREVOST. No, sir; not that I have any recollection of. I do not remember anything coming up at that time.

Senator WILLIAMS. You say that the option turned out afterwards to be worthless. Was that because the Nicaraguan Congress refused to ratify the agreement to give you the option?

Mr. MALLET-PREVOST. Yes, sir; after we had paid \$350,000 to Nicaragua on the faith of this contract, and after Nicaragua had gotten all the other benefits of the contract, then she refused to ratify it, and our option was waste paper. When we reached that point we said, "We have parted with \$350,000; that is all right, but we are not going to let the other \$150,000 go." So the matter simply stood there until March 3, 1913, when we got this telegram from Secretary Knox:

WASHINGTON, D. C., March 3, 1913.

BROWN BROS. & Co.,
59 Wall Street, New York:

Minister Weitzel, under date of March second, six p. m., telegraphs that the Nicaraguan Assembly will not authorize option for the sale of entire railroad, and that any proposal based thereon must be given up. The minister then

suggests that only two possible courses are now open to avert a serious economic crisis:

First. That the bankers should exercise their option on fifty-one per cent of the railroad and reimburse themselves for existing indebtedness, thereby releasing all Government revenues; or

Second. That the bankers should release all securities except the railroad, the option on fifty-one per cent of which, under the contract, will continue until the debt is discharged. President Diaz seems to feel that the bankers are too insistent on having now the same security, when the debt is only four hundred thousand dollars. The minister observes that unless the bankers accept one or other of the above proposals there is likelihood that the assembly, which is about to adjourn, will revoke all financial legislation, and says that the situation is critical and should be immediately relieved.

KNOX.

As a result of that appeal from the State Department, the bankers, without further contract, let go the other \$150,000 and turned it over to Nicaragua, and in addition to that they agreed to release the customs from March 1, 1913, up to June 30, 1913, so as to further help.

That was in March, just before the new administration came in, and we hoped to be out of the woods for a little while, but immediately new appeals came, and we made a new contract on June 30, 1913, following, and under that contract we let them have some more money. You will remember that I spoke a moment ago about the way we got around the situation in the absence of Congress, by letting them have help to the extent of \$400,000 of the original \$500,000 which the bankers had obligated themselves to provide for currency purposes. Now, under this contract, having given them already \$400,000, we gave them the other \$100,000, making \$500,000. Then we released the customs again from June 30 to October 15, 1913, upon which date the old treasury bills became due.

Senator SMITH of Michigan. Referring to your answer a moment ago, what did you get for those additional advances?

Mr. MALLET-PREVOST. Nothing.

Senator SMITH of Michigan. Not even a contract to purchase the railroad stock?

Mr. MALLET-PREVOST. No, sir; not a cent; no consideration whatever.

Senator SMITH of Michigan. What was that date?

Mr. MALLET-PREVOST. June 30th, 1913. The contract is here. It speaks for itself.

Senator SMITH of Michigan. We can have a copy of that?

Mr. MALLET-PREVOST. Oh, yes, sir; you can have a copy of all these things.

The full text of the agreement of June 30, 1913, between the Republic of Nicaragua and the bankers is as follows:

SKE43]

REPUBLIC OF NICARAGUA, AND BROWN BROTHERS & COMPANY AND J. & W. SELIGMAN & COMPANY.

AGREEMENT, DATED: JUNE 30TH, 1913.

Agreement made at the City of New York this 30th day of June, 1913, between the Republic of Nicaragua (hereinafter called the "Republic"), party of the first part, and Brown Brothers & Company and J. & W. Seligman & Company, copartnerships doing business in the City of New York (hereinafter called the "Bankers"), parties of the second part, Witnesseth:

Whereas, the contract of November 4, 1912, between the parties hereto modified two prior contracts between them, dated respectively March 26th and May 25th, 1912, with the result that the Bankers were relieved of the obligation to provide one hundred thousand dollars for the purpose of the Monetary Law of March 20, 1912, said sum being a part of certain five hundred thousand dollars mentioned in said contracts; and

Whereas, notwithstanding the provisions of said contract of November 4, 1912, the Republic considers it advisable that said sum of one hundred thousand dollars shall remain available for the purposes indicated, and desires that the Bankers shall not avail themselves of the provisions referred to, but that on the contrary they shall provide said sum as an integral part of said five hundred thousand dollars upon the same conditions that would have governed if the contracts of May 25th and November 4th, 1912, had not been entered into; and

Whereas, the Bankers have offered to waive said provisions of said November 4, 1912 contract and to provide said one hundred thousand dollars for the purposes of said Monetary Law as originally agreed;

Whereas, the Bankers have also offered to waive their right to apply the Customs collections up to October 15, 1913, to the payment of the principal and interest of the Treasury Bills still outstanding and to the repayment of the amounts advanced and to be advanced by them under the supplemental Loan Agreement of March 26, 1912, for the purposes of said Monetary Law;

Whereas, said offers by the Bankers are upon the following conditions, namely:

First: That the one hundred thousand dollars above mentioned to be provided by the Bankers shall be applicable exclusively to the purposes of said Monetary Law.

Second: That the customs duties to be collected between June 30th and October 15th, 1913, after the payment of the costs of collection, shall be applied as follows:

(a.) To the payment during each month to the Bankers of the amounts which, under the provisions of the May 25, 1912 contract between the Republic and the corporation of Foreign Bondholders, are payable for account of interest, sinking fund and service of the 1909 loan.

(b.) To the payment during each month to the United States Mortgage and Trust Company of one-quarter of the balance of said Customs collections, said amount to be treated as additions to the Exchange Fund established by the Monetary Law.

(c.) To the payment during each month of a sum not exceeding three thousand dollars to the Mixed Claims Commission for salaries and expenses of said commission.

(d.) After the foregoing payments shall have been made, any balance during each month shall be deposited with the National Bank of Nicaragua, Incorporated, to the credit and for the benefit of the Republic.

Third: That any failure on the part of the Republic to comply with any of said conditions shall operate to terminate the obligation of the Bankers to make any further advances under the Supplemental Loan Agreement and shall reinstate their rights as to Customs thereafter collected as if this agreement had not been made; and

Fourth: That such waivers shall in no manner affect the rights of the Bankers under the Treasury Bills and Supplemental Loan Agreement.

Now, therefore, for and in consideration of the premises, it is hereby stipulated and agreed as follows, to wit:

The Bankers on the terms and subject to the conditions hereinbefore set forth, hereby waive such of the provisions of the November 4th, 1912 contract as relieved them from the obligation to provide \$100,000 for the purposes of the Monetary Law of March 20th, 1912, and agree to provide said \$100,000 as an integral part of the \$500,000 mentioned in the Supplemental Loan Agreement of March 26th, 1912, upon the same conditions that would have governed if the contracts of May 25th and November 4th, 1912, had not been entered into. And the Bankers also upon the terms and subject to the conditions hereinbefore set forth, waive their right to apply the Customs collections from June 30th to October 15th, 1913, to the payment of the principal and interest of the Treasury Bills outstanding, and to the repayment of the amounts advanced and to be advanced by them under the Supplemental Loan Agreement of March 26th, 1912, for the purposes of said Monetary Law.

The Republic hereby accepts the said waivers and agreements on the part of the Bankers upon the terms and conditions hereinbefore set forth, and hereby agrees to comply with said terms and conditions.

This agreement shall be deemed to be and shall be construed as a New York contract. Its provisions shall apply to and in respect of the firms of bankers constituting the parties of the second part as said firms shall from time to time be constituted without reference to any change in membership.

In witness whereof, the Republic has caused this agreement to be subscribed on its behalf by Pedro Rafael Cuadra, its Minister of Finance, thereunto duly authorized; and said Brown Brothers & Company and J. & W. Seligman & Company have hereunto set their hands and seals the day and year first above written. This contract is executed in triplicate.

REPUBLIC OF NICARAGUA,
By PEDRO RAF. CUADRA,
Minister of Finance.
BROWN BROTHERS & Co.
J. & W. SELIGMAN & Co.

Witness:

S. MALLET-PREVOST.

Mr. MALLET-PREVOST. That was in June, and this was very shortly after. It was about that time, I believe, that Mr. Cuadra came up from Nicaragua, and then we had more calls for money.

Senator WILLIAMS. Who was it that came here from Nicaragua?

Mr. MALLET-PREVOST. Mr. Cuadra, the present financial agent. He used to be the minister of finance down there, and he came up here as financial agent and immediately started new negotiations and those negotiations which were carried on went all through the summer of 1913 and culminated in the agreements of October 8, 1913—last October—when we entered into the agreements which are now in force.

(Copies of the following agreements, all dated October 8, 1913, appear in the appendix:)

1. Collateral Trust Agreement between the Republic of Nicaragua and the United States Mortgage & Trust Co.

2. Agreement for Purchase of Treasury Bills between the Republic of Nicaragua and Brown Bros. & Co. and J. & W. Seligman & Co. (Appendix 3.)

3. Agreement for purchase of railroad and bank stock between the same parties.

4. Agreement between the Republic of Nicaragua and National Bank of Nicaragua, Incorporated.

5. Agreement between Republic of Nicaragua and Ferrocarril del Pacifico de Nicaragua.

Mr. MALLET-PREVOST. Now, very briefly, these agreements, which were severally numbered, provided this: We exercised the option on the purchase of that 51 per cent of the railroad stock and paid Nicaragua a million dollars for it; secondly, we purchased a new issue of treasury bills—the one-year treasury bills—which come due next October, for \$1,060,000 par value. They were discounted at 6 per cent, so we paid a million dollars for them. Instead of having them bear 6 per cent payable on maturity, they were discounted at 6 per cent. That made \$2,000,000.

Secretary BRYAN. It was simply interest paid in advance.

Mr. MALLET-PREVOST. Simply interest paid in advance. Then at the earnest solicitation of Nicaragua the capital of the national bank was increased from \$100,000, which it had been theretofore, to \$300,000, and the bankers took 51 per cent of that stock at par, paying \$153,000 for it, the other \$147,000 belonging to Nicaragua. Of that \$147,000 she had already paid \$100,000, the original capital, and out of this \$2,000,000 which she got she paid for the other \$47,000, so the

bank to-day has a capital of \$300,000, of which the bankers own 51 per cent and Nicaragua owns 49 per cent; and, as I have stated, of the railroad the bankers purchased 51 per cent and the other 49 per cent belongs to the Republic.

Secretary BRYAN. Those purchases, both of the 51 per cent of the railroad and the bank, were made under contract prior to that time, which you have already given?

Mr. MALLET-PREVOST. I have referred to the option which we had, and which we were constantly, constantly being pressed to exercise, and which we finally exercised in this form.

The CHAIRMAN. Have you an option now on the 49 per cent?

Mr. MALLET-PREVOST. No, sir; we have no option whatever, only a preferential right to purchase that 49 per cent in case Nicaragua wants to sell it.

Senator SHIVELY. The railroad is owned by the Maine corporation?

Mr. MALLET-PREVOST. Yes, sir; 51 per cent by the bankers and 49 per cent by the Republic.

Senator SHIVELY. And the bank is owned—

Mr. MALLET-PREVOST. It is a Connecticut corporation, and is owned in the same way—51 per cent by New York bankers and 49 per cent by the Government.

Now, as to how the balance of this two millions was disposed of, you will get the exact details from the bankers when they come on the stand; but we took up all outstanding indebtedness, including the old treasury bills of 1911, so far as they were still outstanding, all of which indebtedness is wiped out. All these loans which the bankers had made from time to time were repaid, so that the whole thing was cleaned up and we began with a clean slate. The situation at this moment is that the bankers hold a million and sixty thousand dollars' worth of treasury bills which come due next fall.

Senator SMITH of Michigan. In October?

Mr. MALLET-PREVOST. In October.

Senator ROOT. That is the entire debt?

Mr. MALLET-PREVOST. That is the entire debt so far as we are concerned. The rest of the money is invested in the country—a million dollars in the railroad and \$153,000 in the bank.

Senator SMITH of Michigan. The United States Mortgage & Trust Co., however, as trustee, hold all of the remaining shares of the railroad and of the banking company.

Mr. MALLET-PREVOST. Certainly. I should say that the million and sixty thousand dollars of the treasury bills is secured in this way: In the first place, a lien on the customs—I should say a lien on the customs subsequent to other liens that are on the customs—and in the second place by a first lien upon the Republic of Nicaragua's bank shares, and thirdly by a first lien upon the Republic of Nicaragua's railroad shares.

Senator SMITH of Michigan. Those are all set forth—

Mr. MALLET-PREVOST. It is all set forth in the contract, and the certificates of stock are deposited in the United States Mortgage & Trust Co. as collateral security for these treasury bills. Have I brought out all you wanted to ascertain?

Senator SMITH of Michigan. Very clearly.

Senator SHIVELY. I have not been present throughout all of your statements. You spoke of your lien as being subordinate to other liens on customs. What are some of the superior liens?

Mr. MALLET-PREVOST. For instance, there is a lien in favor of the 1909 bonds, which have been wrongly but currently designated as the Ethelburga bonds, and a good many of those have been retired.

Senator SMITH of Michigan. They refunded the Ethelburga bonds?

Mr. MALLET-PREVOST. No; they are the same bonds. They do not take the place of other bonds. They are actually the same bonds, stamped; that is all. They have a first lien on the customs. I do not know what the amount outstanding is; that is, the amount of those still outstanding. It must be a little under \$6,000,000. You will get that from the bankers exactly. They have it to a penny.

Senator SMITH of Michigan. All the customs were pledged to secure that?

Mr. MALLET-PREVOST. All that; yes, sir.

Senator SMITH of Michigan. Then 25 per cent of the customs was pledged a little later on with another class of securities?

Mr. MALLET-PREVOST. Yes; we have allowed to go ahead of those things a pledge on the customs—I can not recall exactly the terms, but it is unimportant. It is under the October 8, 1913, agreement with the bank and is for the purpose of strengthening the exchange fund of the Republic and the currency. I think then that when the exchange fund gets down below a certain figure, then 25 per cent of the customs receipts go in to replenish it until it reaches another figure, and that is a lien which comes after the Ethelburga bonds and before the lien securing our loan. In other words, we have a sort of third lien on the customs, a first lien on the bank shares, a first lien on the railroad shares. I should mention that there is still another lien on the customs ahead of our loan and this is in favor of the Corporation of Foreign Bondholders in connection with the agreement of settlement. I do not recall exactly what that is.

A question arose when we tried to get the fund out of the bank in London; there was some question as to the authority to turn that fund over to us and it became necessary to give the bank there a bond of indemnity, and the bankers in New York refused to have anything to do with that, and the bond was finally given by the Corporation of Foreign Bondholders in London with the agreement that they should be again indemnified by a lien on the customs in case any claim was made against them on that account—simply an indemnity matter. So the lien of the New York bankers on the customs is a fourth lien.

The above-mentioned indemnity agreement with the Corporation of Foreign Bondholders, dated October 31, 1912, is as follows:

SKE 31.

REPUBLIC OF NICARAGUA AND THE CORPORATION OF FOREIGN BONDHOLDERS.

INDEMNITY AGREEMENT.

Dated October 31, 1912.

Agreement made at the city of New York this 31st day of October, 1912, between the Republic of Nicaragua, hereinafter called the "Republic," party of the first part, and the Corporation of Foreign Bondholders, of London, a body politic organized under an act of the Parliament of the Kingdom of Great

Britain and Ireland, hereinafter called the "corporation," party of the second part, witnesseth:

Whereas the parties hereto heretofore made and entered into two certain contracts, both dated May 25, 1912, copies of which are hereto annexed and marked "Exhibit 1" and "Schedule A" thereto, respectively; and

Whereas in order to secure the payment and release by the Ethelburga Syndicate (Ltd.) of the moneys mentioned in subdivision (2) of article first of said contract, Exhibit 1, the corporation, at the special instance and request of the Republic, has executed and delivered to said Ethelburga Syndicate (Ltd.) an indemnity agreement in the form hereto annexed and marked "Exhibit 11":

Now, therefore, in consideration of the premises, it is hereby agreed as follows:

ARTICLE FIRST.

The Republic will indemnify and hold harmless the said corporation, its successors and assigns, from, against, and in respect of any and all claims, demands, and actions against said corporation by reason of its said indemnity agreement with said Ethelburga Syndicate (Ltd.); provided, however, that the corporation shall promptly notify the Republic and its fiscal agent in London of any such claims, demands, or actions made or brought against it, and that the Republic shall have the right to conduct in the name of the corporation or otherwise the defense of any such action or proceeding; and provided also that the corporation shall promptly notify the Republic and its fiscal agent in London of any claim, demand, or action against the Ethelburga Syndicate (Ltd.), covered by its said indemnity agreement with said syndicate, of which the corporation may receive notice, and that the Republic shall have the right and be afforded by the corporation the opportunity, in the name of the corporation or of the syndicate or otherwise, to exercise the right reserved to the corporation in its said indemnity agreement with the Ethelburga Syndicate (Ltd.) of conducting in the name of said Ethelburga Syndicate (Ltd.), or otherwise, the defense of any action or proceeding against said syndicate covered by said indemnity agreement.

ARTICLE SECOND.

In order to secure its obligations to indemnify the corporation as aforesaid, the Republic agrees that whenever any sum or sums of money shall become due and payable by the Republic to the corporation by reason hereof any customs revenues of the Republic thereafter collected in excess of the interest, sinking fund, and other requirements under the contract Schedule A of May 25, 1912, shall, so far as necessary, be applied to the payment of any sum or sums so due and unpaid, and that the collector general of customs mentioned in article fourth of said contract shall, up to the amount of any sum or sums so due and payable to the corporation, remit to the corporation through the fiscal agent of the Republic in London any such excess revenue so collected by him after the date when such sum or sums become so due and payable.

In witness whereof the Republic has caused the foregoing instrument to be subscribed in its behalf by Dr. Salvador Castrillo, envoy extraordinary and minister plenipotentiary of the Republic of Nicaragua, near the Government of the United States, and The Corporation of Foreign Bondholders has caused these presents to be executed by its secretary thereunto duly authorized, the day and year first above written.

Executed in duplicate.

REPUBLIC OF NICARAGUA,

By SALVADOR CASTRILLO,

Envoy Extraordinary and Minister Plenipotentiary of the Republic of Nicaragua, near the Government of the United States.

THE CORPORATION OF FOREIGN BONDHOLDERS,

By JAMES P. COOPER, *Secretary.*

STATE OF NEW YORK,

City and County of New York, ss:

On this 31st day of October, 1912, before me personally came and appeared Salvador Castrillo, who, being by me duly sworn, did say that he resides in Washington, D. C.; that he is the envoy extraordinary and minister plenipotentiary of the Republic of Nicaragua, near the Government of the United

States; that he is duly authorized to execute the foregoing instrument, and that he signed and delivered the same on behalf of the Republic pursuant to such authority.

In witness whereof I have hereunto set my hand and affixed my notarial seal of office in the city, county, and State of New York the day and year first above written.

[SEAL.]

THOMAS ROBERTS, JR.,
Notary Public, 58, N. Y. Co.

My commission expires March 30, 1914.

Exhibit 1 and Schedule A attached to original are copies of the two contracts of May 25, 1912, between the Republic and the Corporation of Foreign Bondholders.

EXHIBIT II.

We beg to inform you that 34,845 bonds of the Republic of Nicaragua 6 per cent loan of 1909, of the nominal value of £1,040,740, have been deposited with us as evidence that the holders thereof have assented to the scheme of arrangement between the Government of Nicaragua and the bondholders, of which details are set forth in our circular of June 24, 1912 (a copy of which is annexed hereto), and accordingly in consideration of your handing over to Messrs. Brown, Shipley & Co., at the request of the Government of Nicaragua for account of Messrs. Brown Bros. & Co. and Messrs. J. & W. Seligman & Co., of New York, acting on behalf of the said Government, the sum of £379,049 4s. 2d., deposited with your bankers and representing the agreed balance of the proceeds of £570,000 of bonds of the Nicaragua 6 per cent sterling loan of 1909, with interest accrued, we hereby undertake to indemnify and hold you harmless from, against, and in respect of all claims, demands, and actions whatsoever which may be made against you in consequence of your so doing; it being understood that you will promptly notify us of any such claims, demands, or actions, and that we shall have the right to conduct in your name or otherwise the defense of any such action or proceeding.

For the Council of Foreign Bondholders.

_____, Secretary.

Senator SMITH of Michigan. Now, if any of the senior liens to which you have alluded should consume the customs, where do you stand with your securities?

Mr. MALLET-PREVOST. As I recall, the agreement of October 8, 1913, we can not sell the bank stock pledged as collateral until the expiration of six months after default, and in that case we would sell the bank stock, I mean, if we exercised our legal right. I do not know what the bankers would do, but they could sell the bank stock at the end of six months and apply the proceeds of that sale to the reduction of the amount due on the treasury bills. Then, if that was not sufficient, in another six months they could sell the railroad shares which they hold as collateral and apply that.

Senator SMITH of Michigan. Now, having done all that, where would that leave you?

Mr. MALLET-PREVOST. Well, the probability is, and I certainly hope, they would be repaid in full by that time.

Senator SMITH of Michigan. But the fact that your interest in the customs is junior to those other contracts and agreements furnishes a motive for getting them in, of course, and converting them into some other form of indebtedness, does it not?

Mr. MALLET-PREVOST. I think it would if the amount of our indebtedness were very large, or if we had nothing else, but so far as I know that thought has not entered into the minds of the bankers, and it has not entered into mine.

Senator SMITH of Michigan. It is also rather incumbent that the Government should be somewhat stable.

Mr. MALLET-PREVOST. Undoubtedly; the more stable the Government is the more likely it is to meet its obligations.

Senator SMITH of Michigan. What kind of stability would you suggest?

Mr. MALLET-PREVOST. That is a little difficult to say. Stability free from revolution.

Senator SMITH of Michigan. How would you accomplish that?

Mr. MALLET-PREVOST. I am very much flattered by your asking me the question, Senator, but I hardly feel that I can instruct the Senate Committee on Foreign Relations in a matter of that kind.

Senator SMITH of Michigan. Greater novices than you have suggested a remedy. Mr. Douglas had no hesitation in suggesting a remedy the other day.

Mr. MALLET-PREVOST. Personally, and without speaking for the bankers—and I would like this very clearly understood—personally, I believe that a treaty of the kind that I understand is before you gentlemen would go a long way toward accomplishing that purpose.

Senator SMITH of Michigan. Have you seen it?

Mr. MALLET-PREVOST. I have not seen it. I have understood from Mr. Douglas that it was a treaty substantially along the lines—that it has a provision that is similar to the Platt amendment in the Cuban treaty.

Senator SMITH of Michigan. There is no Cuban treaty in the sense that the Platt amendment is applied. That was an act of Congress.

Senator ROOT. It is a treaty. It was embodied in the treaty.

Senator SHIVELY. It is both a statute and a treaty, is it not?

Senator ROOT. It is a statute, and is in the constitution and treaty.

Senator SMITH of Michigan. I know it is in the constitution. Is the presence of our marines calculated to give any stability to the Government?

Mr. MALLET-PREVOST. I suppose so, although I do not think I ought to express an opinion on that subject, as I really have not an opinion.

Senator SMITH of Michigan. Well, strike it out if you prefer not to answer.

Senator ROOT. Are you through with your statement, Mr. Mallet-Prevost?

Mr. MALLET-PREVOST. I am, Senator.

Senator ROOT. May I ask you a question?

Mr. MALLET-PREVOST. I will say that I have a number of other letters here, all of which relate to the negotiations leading up to the last agreement. I do not think that it is important for me to read them, but I will supply the committee with copies of them all. There is one letter that maybe I should like to read, if you will allow me, and I will turn these all over to the record otherwise. The letter which I want to read is this—or it is a telegram which was sent to the present Secretary of State. On August 28, 1913, the bankers wrote as follows to the Secretary of State—

Senator WILLIAMS. Did they write or wire?

Mr. MALLET-PREVOST. They wrote on that date, confirming a telegram sent on the same day. I will read the telegram:

In answer to your letter of August 27, we beg to say that while we appreciate your desire to consider the interests of Nicaragua, and to assist it in securing

funds on equitable and just terms, we regard the suggestion for financial aid recently made by us as eminently fair. That suggestion was made, having in mind existing contracts as well as reasonable compensation for services which have now extended over a period of more than two years—

I think, if I recall, that at this time there was some thought in the mind of Mr. Bryan that we ought to pay more than a million dollars for the 51 per cent interest in the railroad. The telegram continues:

Your letter states that the rate of interest—i. e., 6 per cent—does not measure the compensation which we ask, and that there is a profit in the option on the railroad which we claim in addition to principal and interest. This statement is correct, if by compensation you mean compensation for past services and if the option has reference to 51 per cent of the railroad stock. Such compensation, in precisely that form, is stipulated by the contracts now in force. The compensation which we proposed for the new loan was along the same lines and included the other 49 per cent of stock. You also suggest that our profit is in some sense concealed. While there can be no question that the profit from the railroad is problematic and uncertain, it can in no sense be qualified as “concealed.” The option which we hold on 51 per cent of the stock is part of the original and still existing contract, was ratified by the Nicaraguan Congress, and its terms and possible effects have always been fully known to the Government and to the public at large. There can, therefore, be no question of concealment. The amount of the compensation, however uncertain it may be, and however great or small, will in any event be almost wholly the result of our own efforts in improving the value of the railroad and in contributing to the prosperity and well-being of the country. While we do not understand that any suggestion has been put forward with reference to the propriety of our realizing whatever profits may lawfully come to us through the exercise of our present option, we feel that it is due to ourselves to set forth briefly the services which we have rendered to Nicaragua and the moral right, therefore, which we have acquired for compensation at her hands. Those services may be summarized as follows:

First. We have systematized the customs service, and through an orderly administration have almost doubled the customs receipts.

Second. We have systematized the internal-revenue service, and through its collection by the bank have greatly increased the receipts—

We had charge of these internal collections for about six months and finally Nicaragua took them away from us—

Third. We have completely reorganized the railroad, introducing modern and orderly methods, and have converted it into a revenue producer—

The railroad never paid a cent up to the time we took charge of it. There were no accounts and nothing to show what that railroad was doing. Everybody went on passes, and they had nothing—the ties were all rotten and everything was going to pieces.

Senator SMITH of Michigan. You know that Mr. Weist has a very substantial claim against the Nicaraguan Government for the cancellation of his lease on that property?

Mr. MALLET-PREVOST. That was before the Mixed Claims Commission.

Senator SMITH of Michigan. I do not know whether it was before that commission, but you know that to be a fact, do you not?

Mr. MALLET-PREVOST. I have heard it; I do not know it to be a fact, and I do not know what legal basis there is for the claim.

Senator SMITH of Michigan. Have you ever seen any report of the condition of that property under the management of Weist?

Mr. MALLET-PREVOST. No, sir. [Continues reading:]

Fourth. We have established a national bank and through its agency have reorganized the currency of the country, placing it upon a sound basis and reducing the exchange from 2200 to 1250.

Fifth. We have secured for Nicaragua the release of about \$1,846,000 which was held in London by the Ethelburga Syndicate.

Sixth. We have secured for Nicaragua a reduction of the interest on the English debt from 6 per cent to 5 per cent per annum, thereby saving \$61,000 a year or a total of about \$2,196,000 for the 36-year term of the loan.

Seventh. We have secured for Nicaragua the right of redeeming the principal of the English debt at a substantial discount.

Eighth. We have secured for Nicaragua the release of the railroad from the lien of the English debt, without which it would be impossible to-day for Nicaragua to sell the road or to raise money by pledging it as security.

The above is merely an outline of what we have done. Our original connection with this business arose out of a contemplated transaction in bonds to be issued under a treaty with the United States, which transaction, if it had been completed, would have been closed and the profits would have been realized within a few months. Instead of this, for over two years we have given to the affairs of Nicaragua unremitting attention, such affairs engaging the almost daily consideration of one or two of the partners of each of our firms.

In view of the foregoing, it can not be questioned that we should be entirely within our rights if we were now to exercise our option on 51 per cent of the railroad stock, if out of the product of such sale we repaid ourselves the amount still due us, and if we then made no further advances and rendered no further financial assistance to Nicaragua. We do not wish to assume that attitude. On the contrary, we are anxious that the improvements already inaugurated should be continued, and we also desire to meet your wishes so far as we can properly do so.

You ask us to name the terms on which we would be willing to make an advance to Nicaragua on a purely interest basis. Current rates of interest in Nicaragua are 18 per cent per annum, and yet few are willing to lend even at that figure.

Had the Government of Nicaragua two years ago remained in possession of the railroad, and had it been able to borrow at the rates of interest current in Nicaragua instead of at 6 per cent, as it did from us, it would now find itself indebted to an additional amount of hundreds of thousands of dollars, without any corresponding benefits, while the railroad would almost certainly have depreciated in value.

The difficulties in which we found Nicaragua when we entered into relations with her had arisen precisely from that kind of financing and procedure. We were not originally willing to charge Nicaragua such rates of interest on the loans which we made, because we foresaw that the Republic could not afford to pay them. For the same reason we are unwilling now to make any such contract.

Since the receipt of your letter we have earnestly considered how far we could properly meet your wishes without impairing our existing contracts, and we suggest the following for consideration, namely:

1. That we exercise the option on 51 per cent of the stock of the railroad for \$1,000,000 and that in addition thereto we loan \$1,000,000 to Nicaragua, said \$2,000,000 to be dealt with in the same manner and the advance otherwise to be on the same terms and conditions as the \$2,000,000 loan contemplated in our letters to you of August 13 and August 26.

Senator SMITH of Michigan. Did you not mean March when you said August the 26th?

Mr. MALLET-PREVOST. No; these are letters which I have not read, but which are here. [Resumes reading:]

2. That we shall not be given an option on the remaining 49 per cent of the railroad stock, but shall retain our preferential right under our existing contracts to purchase such stock.

3. That if the 49 per cent of the railroad stock should at any time be sold for more than \$1,000,000, the difference between \$1,000,000 and the purchase price should be divided equally between the Nicaraguan Government and ourselves.

If this division should not meet with your approval, we shall be glad to have you indicate what you consider a proper proportion would be.

4. That we shall not be under obligation to loan to the railroad against mortgage bonds for purposes of improvement \$500,000, as contemplated under existing contracts.

We were anxious to get out of that, and yet we were compelled to take that as part of this thing. [Resumes reading:]

On this last point permit us to observe that if we purchase 51 per cent of the railroad stock it will be to our interest to expend on the property whatever money can be advantageously employed, but that no useful purpose can be served in making such expenditure to an arbitrary amount compulsory.

The other terms and conditions set forth in our letters to you of August 13 and 26 appear to us to tend to the stability of Nicaragua, and for that reason we feel sure that your department would not desire to see us waive them.

BROWN BROS. & CO.
J. & W. SELIGMAN & CO.

(The other letters and telegrams referred to by Mr. Mallet-Prevost appear in the appendix, as follows:)

- (1) Letter from the Secretary of State to the bankers, dated August 12, 1913.
- (2) Letter from the bankers to Secretary of State, dated August 13, 1913.
- (3) Telegram from Secretary of State to bankers, dated August 20, 1913.
- (4) Telegram from bankers to Secretary of State, dated August 20, 1913.
- (5) Letter from bankers to Secretary of State, dated August 26, 1913.
- (6) Letter from Secretary of State to bankers, dated August 27, 1913.
- (7) Telegram from the Secretary of State to the bankers, dated September 17, 1913.
- (8) Letter from bankers to Secretary of State, dated September 19, 1913.
- (9) A letter from bankers to Secretary of State, dated October 2, 1913, submitting the forms of the various contracts to the department.
- (10) Letter from the Secretary of State to bankers, dated October 6, 1913.
- (11) Another letter from Secretary of State to bankers, dated October 6, 1913.
- (12) A further letter from Secretary of State to bankers, dated October 6, 1913, inclosing copy of a letter of the same date from Secretary of State to Mr. Cuadra.
- (13) A letter from the bankers to the Secretary of State, dated October 8, 1913, inclosing copy of one from Mr. Cuadra to the bankers of the same date.
- (14) A letter from the bankers to the Secretary of State, dated October 18, 1913, inclosing original counterparts of all of the October 8, 1913, agreements.

Senator ROOT. May I ask you a few questions at this point? The treasury bills under the agreement of 1911 were all paid.

Mr. MALLET-PREVOST. They were paid out of the proceeds of this.

Senator ROOT. What became of Mr. Ham, who was originally put into the position of receiver of customs under that agreement?

Mr. MALLET-PREVOST. He continued under that agreement; in the first place, under the agreement with the Corporation of the Foreign Bondholders of May 25, 1912. You will recollect that that agreement provided that so long as any of the Ethelburga bonds—that is, the 1909 bonds—should be outstanding that the customs should continue to be collected by a collector general approved by the Secretary of State of the United States, so that to-day, even if Brown Bros. and Seligman were wholly paid off the collection of customs would continue to be made in that way by virtue of the contract made with the Corporation of Foreign Bondholders and the holders of the 1909 bonds.

Senator ROOT. And does he continue also to act under the outstanding million and sixty thousand dollars of the new loan?

Mr. MALLET-PREVOST. He does, under these two agreements.

Senator ROOT. He is still acting?

Mr. MALLET-PREVOST. He is still acting.

Secretary BRYAN. Mr. Chairman, I have been here at your invitation, and I appreciate the opportunity of being here, because I am getting a great deal of information in regard to these past transactions. Mr. Mallet-Prevost has just come to the portion of the trans-

action in which the present administration took part. I am compelled to go to the State Department to meet the German ambassador, who is leaving; and I wanted to know just what the plan was, how long you are going to continue the investigation, and whether it would be worth while for me to come back.

The CHAIRMAN. I understand that Mr. Wands is waiting to be heard.

Secretary BRYAN. To be heard this afternoon?

The CHAIRMAN. Yes; and we will have the two bankers to-morrow.

Senator SMITH of Michigan. You are getting the report of the hearings?

Secretary BRYAN. Yes.

Senator SMITH of Michigan. So you are familiar with what we are doing here?

Secretary BRYAN. Yes, sir.

Senator SMITH of Michigan. You would get it in print, anyway, would you not?

Secretary BRYAN. I know, but I would be glad to keep up with the matter. There is one letter that you [addressing Mr. Mallet-Prevost] read to me from Mr. Ham, and I wanted to make this suggestion: I doubt the propriety of putting in the printed record a letter such as he has here that he wants to read for your information. I doubt the propriety of inserting it in the printed record, because the printed record may get out of your hands. X X

Senator SMITH of Michigan. I am sorry that that is the case. I am sorry that you say it is something that we ought to keep to ourselves for this reason, as I said a few moments ago to Senator Shively. All of the information that I have is furnished to me by some one else. Col. Ham, of course, knows about this letter. You evidently know about it; the bankers know about it. I can not understand what there should be that is private about it, that it should not go into our record, if it has any bearing upon this matter.

Secretary BRYAN. Simply that if you read the letter you will see, I think, that comments that are made upon Government transactions that are past, or transactions that might occur, made by him there—made in a confidential way—ought not to be put where they can become public property.

Senator SMITH of Michigan. Maybe they are there already when we get them.

Secretary BRYAN. No; there are lots of confidential letters.

Senator ROOR. Such a thing might make it impossible for him to remain in Nicaragua.

Secretary BRYAN. That is what I mean, and when I read it I found language used by our consul to the Government that I would not be willing to have printed here. D

Senator SMITH of Michigan. To what do you refer?

Secretary BRYAN. Gunther's report.

Senator SMITH of Michigan. We must have Consul Gunther's report to State Department, and the committee must know all that story, because I do not hesitate to say to you that I have a letter now in my portfolio from New York asking if I would like that report; the person says he has got it, and asked if I would like it. I have not even answered the letter. I do not want to answer it.

Secretary BRYAN. I am willing to read this to the committee, but I do not think it ought to be put into the record.

Senator WILLIAMS. What is it—a criticism of the people down there?

Secretary BRYAN. It is a criticism of the Government.

Senator ROOT. You can not carry on the Government if you are going to make public comments of that kind.

Senator SHIVELY. We can not have any such thing as foreign relations.

Senator ROOT. I refused forty times to send matters of that kind to Congress.

Secretary BRYAN. As I say, I am perfectly willing to read it to the committee so that you will all know what it is, but to put it in the printed document and allow it to get out, I do not think it is fair to the department.

Senator SMITH of Michigan. I have it now.

Senator SHIVELY. Where did you get it?

Senator SMITH of Michigan. I would like to answer that question, but I do not think that is quite the fair question to address to me. I do not ask you where you get anything.

Senator SHIVELY. It is important information. We are all interested in knowing how these things get out.

Senator SMITH of Michigan. I did not get it in any manner that was unbecoming, but I have it, and if I have it, then it is not exclusively within the knowledge of the Department of State.

Senator SHIVELY. Is that any reason why this committee should give it additional publicity?

Senator SMITH of Michigan. No.

The CHAIRMAN. Is it any reason why the Department of State should give it out?

Secretary BRYAN. Or any reason why it should be printed for publication?

Senator WILLIAMS. After everybody is dead and history comes to be written, the smart, sharp criticisms that one Government makes of another, or of the persons in Government, are all right, but while they are all still living, you can not tell.

Senator SMITH of Michigan. You will bring it to the committee and we will know more about it after you have brought it than we do now.

Secretary BRYAN. If you give it out it is your fault. You say you know it.

Senator SMITH of Michigan. I know it.

Secretary BRYAN. If you give it out it is your fault.

Senator SMITH of Michigan. I shall not give it out.

Secretary BRYAN. If we give it out it is our fault.

Senator SMITH of Michigan. I shall not give it out, Mr. Secretary, except I have the right to do it. It does not belong to the committee. It belongs to me, as a Senator.

Secretary BRYAN. When I read this I am satisfied that the Senator will say it ought not to be printed. Here are statements made in a letter as to possible action of the Government. If these statements are to be published, whenever you put a thing in print and circulate it among a number of persons there is a chance of it getting out, and it might involve the staying of Mr. Ham.

Senator POMERENE. And it might destroy the usefulness of our representative down there.

Secretary BRYAN. You can not run foreign relations on that basis.

Senator SMITH of Michigan. I want to make this observation, and I do it without any reflection on anybody or anything—that the identical language to which the Secretary has referred, in my judgment, is the foundation, and a very startling foundation, of much of the claim set forth in my public statement in the Senate a few days ago, and that being so it becomes very material. I can not be precluded, and the committee ought not to be precluded, from seeing what I have seen and what is within the knowledge of other people.

Secretary BRYAN. You misunderstand me, Mr. Smith. I am willing to read the passages before the committee which I think ought not to be put into the record.

Senator SMITH of Michigan. And to print the balance?

Secretary BRYAN. Certainly, and to print the balance.

Senator ROOT. I think you had better not.

Senator SMITH of Michigan. Well, I think he had better.

Senator ROOT. I think it is the duty of the State Department to refrain from communicating to anybody the communications from our representatives in foreign countries, which are in their nature confidential, and the publication of which would be injurious to the public interests.

Senator WILLIAMS. And are freely written because they are thought to be confidential?

Secretary BRYAN. If they can not speak to us confidentially, they can not speak at all.

Senator SMITH of Michigan. But here is a matter that seriously affects the policy of the Government, and if Senators can not know about it, I think that is a very strange—

Secretary BRYAN. You can know about it. If, for instance, one of our representatives, speaking in conversation with the Government, says he thinks the official did not tell the truth, that he found so and so, do you think we ought to allow that to be published if that is an official report of the consul general? [To the reporter.] You need not take this down.

Senator SMITH of Michigan. I want what I have said taken down, and the committee, if it wants to eliminate it, can do so against my protest. I have not quoted from any documents.

Senator POMERENE. Senator Smith, almost daily we have sent communications to the President and received communications from him indicating that there are certain things which he can not give out and ought not to give out.

Senator SMITH of Michigan. Certainly.

Senator POMERENE. And I do not think under the circumstances this committee would be justified in making these things public.

Senator SMITH of Michigan. Well, Senator, that may be determined by you when you have seen it, of course, but if it constitutes a very serious phase of this inquiry I think the Senate would be entitled to pass upon the question.

Senator POMERENE. We have got to trust to the good judgment of somebody.

Senator SMITH of Michigan. It is not ours; we did not make it.

Senator ROOT. It is the President's duty to form his own judgment on that subject.

Senator SMITH of Michigan. That is all right, but it will not be formed in darkness; it will be formed in the light.

Senator SHIVELY. What light are you referring to now?

Senator SMITH of Michigan. I am referring to any light that is to be thrown upon our inquiry from any source. I assume we want to know the truth.

Senator SHIVELY. What would be your suggestion in that regard?

Senator SMITH of Michigan. I think it is a matter that the committee might seriously consider, and as we are sitting as an entire committee the matter may be thrashed out in the committee.

Senator ROOT. What is before us now?

Senator SMITH of Michigan. I have a duty before me and you have the admonition of the Secretary and your own admonition before us.

Senator ROOT. I have not any admonition; I have the statement of the Secretary that there are some parts of the minister's report that he thinks ought not to be made public. I have not made any admonition, but I have told him, in my opinion, that if he thinks it ought not to be made public he should not read it to the committee.

Senator SMITH of Michigan. If it goes to the validity of this whole basic transaction, I think the committee can not afford to shut its eyes to it.

Senator SHIVELY. But you are not satisfied with that. As I understand your position, it is that it ought to be made public, not simply that it should come to this committee.

Senator SMITH of Michigan. I speak of its coming to the Senate when I say that. It should come to the Senate, and it will come to the Senate in some form. It is bound to come.

Senator SHIVELY. Why?

Senator SMITH of Michigan. You will want it yourself.

The CHAIRMAN. Are you through, Mr. Mallet-Prevost?

Mr. MALLET-PREVOST. I think it may be of interest to the committee to hear read a translation of a petition dated Managua, May 30, 1914, which was presented to the manager of the National Bank (Inc.) by employees of the Government. It is as follows:

MANAGUA, May 30, 1914.

The MANAGER OF THE NATIONAL BANK (INC.):

We who address you belong to the Government offices; that is to say, we are employees who have not received our salaries for four months, because they tell us that the Government does not own a single cordoba cent in that bank. You will understand that our horrible situation as employees who receive nothing has no equal in any civilized country; sufficient to say that for some time we have not been able to find anyone who will give us food on credit, because they say that the Government never pays, so that our mothers, wives, and children are now in the most frightful poverty which can be imagined. Besides, as the Government does not pay us our salaries, we can not pay the rent for the houses where we live; the owners have asked us to vacate said houses, and we have to go into the street and beg for a place to stay.

As more than five months' salary is due to the school-teachers, the children can now be seen loitering about the streets; because the Government has no money and can not pay the teachers for the course just finished, it is impossible to open the schools.

Señor Manager, our misery is complete; the Government can not pay us because it has no money, and we urgently need to be paid so that we can pay what we owe for food, house, and clothing. We beg that you, in a spirit of philanthropy, deign to deliver us from the terrible poverty which surrounds

us, lending to the Government the money which it needs for the payment of our salaries.

We hope for this service from your philanthropy, which will place the American Government in the very best light and gain for it the social esteem of Nicaragua.

We pray that you may have success in the discharge of your high office.

THE EMPLOYEES OF THE GOVERNMENT.

The CHAIRMAN. Whom is that to?

Mr. MALLET-PREVOST. To the manager of the bank, and he forwarded it to the bankers in New York.

The CHAIRMAN. Under what date?

Mr. MALLET-PREVOST. May 30, last.

Senator SHIVELY. May 30, 1914?

Mr. MALLET-PREVOST. Yes, sir; I received it only a day or two ago, and I thought it might interest you gentlemen to get a little side light on the situation down there. It is frightful.

The CHAIRMAN. Are you still associated as counsel with Brown Bros. & Seligman?

Mr. MALLET-PREVOST. Yes, sir.

The CHAIRMAN. You are still connected with the business that you have been testifying about?

Mr. MALLET-PREVOST. I am.

The CHAIRMAN. Do you know whether your clients, Brown Bros. & Seligman, are specially interested in or concerned about this tentative treaty that we have under consideration?

Mr. MALLET-PREVOST. They have taken absolutely no part in it one way or the other, and I ought to say, if you will allow me—

The CHAIRMAN. Do you know whether they have been consulted about it?

Mr. MALLET-PREVOST. They have not been consulted.

The CHAIRMAN. You started to say something. What did you desire to say?

Mr. MALLET-PREVOST. With reference to the purchase of the Ethelburga bonds, those bonds of 1909, I have seen some statements to the effect that Brown Bros. & Seligman had purchased some of those bonds and were expecting to reap some benefit from them. I want to state in the most positive manner that neither Brown Bros. & Co., nor J. & W. Seligman & Co., nor any of their allied houses in Europe, have bought a single one of those bonds, and when they undertook to negotiate a settlement with the Ethelburga Syndicate, and afterwards with the Corporation of Foreign Bondholders, they expressly cautioned all bankers in Europe with whom they were connected not to deal in those bonds. They have never had one cent of interest directly or indirectly in those bonds.

Senator SMITH of Michigan. Why?

Mr. MALLET-PREVOST. Because they did not want to have the slightest interest in the outcome of these negotiations, and wanted to be in a position to represent Nicaragua without having any interest in the outcome.

Senator SMITH of Michigan. Because they did not believe they were valid.

Mr. MALLET-PREVOST. No, sir; they did believe they were valid.

Senator SMITH of Michigan. Did they have any consideration for them?

Mr. MALLET-PREVOST. They did believe they were valid, and did believe there was a temptation to buy those bonds, and it was because of that temptation that they cautioned their houses in Europe not to do it.

Senator SMITH of Michigan. Why was the temptation? Were they so low that the temptation was great?

Mr. MALLET-PREVOST. They were so low that they expected a rise.

Senator SMITH of Michigan. How low were they?

Mr. MALLET-PREVOST. I can not tell you, but the bankers will give you the exact record from day to day.

Senator WILLIAMS. They went down sometimes to something like 60 cents.

Mr. MALLET-PREVOST. I think they went down to about 62. I am not sure, and I think they have been up to about 82. But I do not want to make that statement officially.

Senator POMERENE. Some letter or document that you read indicated 62 as the low figure.

Mr. MALLET-PREVOST. I think so.

The CHAIRMAN. Do you know whether there is any interest—I mean financial interest, especially, or political interest—in Nicaragua or elsewhere that is opposed to the making and ratification of this suggested treaty?

Mr. MALLET-PREVOST. I have no direct knowledge, but I have a good deal of indirect information, and I have some very positive convictions on the subject. I think there is a feeling in Nicaragua that for the past three years while we have been interested in the affairs there, that our management of the affairs has been so hedged around with safeguards and so accurate that there has not been very much opportunity for anybody to make anything out of it, and I think that a good many people are smarting under that and would like to see the old condition of things reestablished.

Senator SHIVELY. A more liberal administration as to finances.

Mr. MALLET-PREVOST. More liberal as to finances.

The CHAIRMAN. Are there any large interests in this country or in Europe of which you have any knowledge that would antagonize this treaty with a view of the rooting out of Brown Bros. & Seligman, and accomplishing some end of their own?

Mr. MALLET-PREVOST. I do not know what, if any, financial interests may be back of some of the movements that I believe are in existence against this treaty. There is a Nicaraguan politician by the name of Dr. Irias; I know he is extremely opposed to the present Government and extremely opposed to the contemplated treaty, and I know he has been moving heaven and earth to bring about its rejection. He and others associated with him down there represent, in a general way, the parties that are opposed to the present Government. I do not know how far, but I believe that to some extent they are interested in obligations of some kind which were issued during the administration of Gen. Zelaya. I think that some of his own family are interested and hold large quantities of securities which they hope some day to be able to make effective.

Senator ROOT. Not recognized.

Mr. MALLET-PREVOST. Not now recognized by anyone.

The CHAIRMAN. Zelaya was in New York some time ago. Do you know whether he has any representative in this country?

Mr. MALLET-PREVOST. I believe that he has.

The CHAIRMAN. Have you any idea—you can answer this or not as you see proper—who his representative is?

Mr. MALLET-PREVOST. I have some idea, but I have not enough knowledge about it and I would not like to do anybody an injustice. That is my only hesitation about mentioning it. I might say something that was wholly without foundation.

Senator SMITH of Michigan. Is he an American?

Mr. MALLET-PREVOST. I would rather not answer that, Senator.

Senator POMERENE. Have you such information as would justify your expressing an opinion as to the proportion of the people of Nicaragua who are supporting the present administration?

Mr. MALLET-PREVOST. Absolutely none; and I do not think that anyone could have. Take, for instance, the situation which is painted in this letter that I have read. You take those people who are there dying from hunger. They are not intelligent enough to be able to form any real opinion as to existing conditions or as to whether the currency system is a proper system, as to whether all these contracts with bankers are desirable for their country or not. All they know is that they are in a frightful condition, and they would like to see something come about which would change that, and they very likely blame the present Government a good deal for it. That does not mean that they are not supporters of the present Government. I think it would be difficult to find out from a mass of those people whether they are supporters of any Government.

Senator SHIVELY. Is there any real popular opinion in that country?

Mr. MALLET-PREVOST. No, sir; I think not.

Senator SHIVELY. Those people do not think much, but they feel strongly.

Mr. MALLET-PREVOST. Exactly.

The CHAIRMAN. Senator Smith, have you any questions that you desire to ask?

Senator SMITH of Michigan. Yes, Mr. Chairman; although I am tired out now. Was the entire stock of the Nicaragua Railroad deposited with Brown Bros. at any time prior to October 8, 1913?

Mr. MALLET-PREVOST. Yes; it was deposited under the terms of the supplemental loan agreement of March 26, 1912.

Senator SMITH of Michigan. Do you know of any negotiations with Mr. Keith or the United Fruit Co. for the purchase of the 51 per cent of the shares of the Nicaragua railroad stock held by Brown Bros. and Seligman?

Mr. MALLET-PREVOST. I know that Brown Bros. and Seligman have at some time in the past negotiated with Mr. Keith for that purpose, but no negotiations are now pending.

Senator SMITH of Michigan. You know that they own the railroads, practically all of them, in Honduras and in Guatemala?

Mr. MALLET-PREVOST. You mean the United Fruit Co.?

Senator SMITH of Michigan. Yes, sir.

Mr. MALLET-PREVOST. I so understand.

Senator SMITH of Michigan. And Mr. Keith?

Mr. MALLET-PREVOST. I so understand.

Senator SMITH of Michigan. And Salvador?

Mr. MALLET-PROVOST. I so understand.

Senator SMITH of Michigan. And Costa Rica? This is the only link in the line from Mexico to Panama that has not been acquired by them. Am I right?

Mr. MALLET-PROVOST. That is correct.

Senator SMITH of Michigan. Under what agreement was the railroad stock deposited with Brown Bros.—under the supplemental agreement of March 26, 1912?

Mr. MALLET-PROVOST. Yes, sir.

Senator SMITH of Michigan. You have explained that supplemental agreement and we are to have a copy of it.

Mr. MALLET-PROVOST. I have endeavored to explain it, and you shall have a copy.

(The supplemental agreement appears in another part of this record.)

Senator SMITH of Michigan. Under what conditions was Nicaragua forced to sell to you—that is, Brown Bros. and Seligman—51 per cent of the national railroad for \$1,000,000, such contract dated March 26, 1912? You have stated a number of reasons. Are there any in addition?

Mr. MALLET-PROVOST. If I have failed to make that clear, Senator, I have utterly failed in my testimony before this committee.

Senator SMITH of Michigan. I prepared that question before you made your explanation, I will say frankly. But you have no further reason to give?

Mr. MALLET-PROVOST. No, sir; except to emphasize those which I have already given.

Senator SMITH of Michigan. Was that contract ratified by the Nicaragua Congress, or was it a contract made by the President under a decree—I am now talking about the contract of March 26?

Mr. MALLET-PROVOST. I am just trying to get it right. We cabled to Managua the form of law which we wanted Congress to pass and which incorporated into it the whole contract, and that law was passed by Congress, and pursuant to that law the contract was executed.

Senator SMITH of Michigan. It was entered into, however, tentatively by the Executive before Congress—

Mr. MALLET-PROVOST. No, sir; I think not.

Senator SMITH of Michigan. Did Congress name the price for which the 51 per cent of the railroad stock was to be disposed of to your firm?

Mr. MALLET-PROVOST. I think it passed the contract verbatim.

Senator SMITH of Michigan. Do you know it did, and know at the time you made the contract to purchase that Gen. Estrada, in 1910, on assuming the office, canceled a lease on that same railroad to a Germany company?

Mr. MALLET-PROVOST. I have read something about the prior existing lease, but I do not think I have any recollection with reference to it.

Senator SMITH of Michigan. Had that lease been made in violation of the language of the Nicaraguan constitution which prohibits the leasing, sale, or other disposal of any Government properties or revenues?

Mr. MALLET-PREVOST. I do not know. I have never examined that lease.

Senator SMITH of Michigan. What is the date of the constitution under which the sale and option which was begun on March 26, 1912, which occurred on October 8, 1913, was consummated?

Mr. MALLET-PREVOST. The date of the constitution?

Senator SMITH of Michigan. Yes.

Mr. MALLET-PREVOST. I can not give it to you exactly. There was a constitutional convention that was called in the fall of 1911.

Senator SMITH of Michigan. Nearly coincident with this contract, was it?

Mr. MALLET-PREVOST. Yes; and it was that constitutional convention which approved the treasury-bills agreement of September 1, 1911, and it was that convention that adopted the present constitution, but just what the date of that constitution was I can not tell you at this moment.

Senator SMITH of Michigan. When did Brown Bros. and Seligman make the first actual payment on any loan intended to be made to Nicaragua—that is, any lump sum advanced on any contemplated loan?

Mr. MALLET-PREVOST. If you want the exact date I can not give it to you, but you will have those figures absolutely from the bankers when they are on the stand, because they have the accounts with them.

Senator SMITH of Michigan. They had first taken over the custom-houses for several months?

Mr. MALLET-PREVOST. I think not. But those facts will come out in your examination of the bankers; that is to say, the exact date.

Senator SMITH of Michigan. I am informed they had the custom-houses about five months. ✓✓

Mr. MALLET-PREVOST. You may be correct, but you will get the facts. I do not want to mislead you.

Senator SMITH of Michigan. And they had this revenue in their hands before they advanced any moneys at all on the 18th of December? ✕ 7

Mr. MALLET-PREVOST. My partner, who is more or less familiar with the matter, states that Mr. Ham took charge of the customs about the middle of December, 1911, and that the treasury bills were purchased by the bankers the following month.

Senator SMITH of Michigan. I do not think I will pursue the matter. I want to get luncheon, and I am tired.

The CHAIRMAN. If that is all that is to be asked the witness, I suggest that we adjourn, or take a recess at this point.

Mr. MALLET-PREVOST. I want to thank the committee very much for the consideration that you have shown me in allowing me to complete my testimony to-day at great inconvenience to yourselves.

(The committee thereupon took a recess until 3 o'clock p. m.)

Estadística 199

Tratado de Comercio signed
June 6, 1911. (interests 177 to 191)

Estados run out May 9, 1911. -
unmanageable.

Temporary Roadway ~~for~~ 1 1/2 million in ~~July~~
Sept 1, 1911

Purpose - 205

Commit - 208

Supplemental loan in 1912 - 775,000

Estadística signed 219 - 233* - 242

230*

95 - of loan 173* & loan for 171

entire capital taken raised 96

every claim - 170

Payments (from) out of customs, etc 257*
291*

Payan sent defensible - 273* to 276

Gift - 217 - 250 - 252

currency - 237

Indicates 174 - United Fruit, 279

CONFIDENTIAL

HEARING

BEFORE THE

COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE

SIXTY-THIRD CONGRESS

SECOND SESSION

ON

CONVENTION BETWEEN THE UNITED STATES
AND NICARAGUA

PART 7

Printed for the use of the Committee on Foreign Relations



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CONVENTION BETWEEN THE UNITED STATES AND NICARAGUA.

MONDAY, JUNE 29, 1914.

COMMITTEE ON FOREIGN RELATIONS,
UNITED STATES SENATE,
Washington, D. C.

After recess the committee convened at 3 p. m. and resumed the hearing.

Present: Honorable Secretary of State and Senators Stone (chairman), Shively, Hitchcock, Williams, Smith of Arizona, and Smith of Michigan.

TESTIMONY OF MR. ERNEST H. WANDS, FINANCIAL AGENT, 71 BROADWAY, NEW YORK CITY.

(Mr. Ernest H. Wands, having been duly sworn by the chairman, testified as follows:)

The CHAIRMAN. Give your name, residence, and business.

Mr. WANDS. Ernest H. Wands, financial agent, 71 Broadway, New York City. My home address is 122 East Eighty-second Street.

The CHAIRMAN. What has been your connection with Nicaraguan affairs?

Mr. WANDS. Mr. Chairman, I will make a narrative statement of my connection, and then you might ask me questions, if that meets with your approval.

I became interested in the Nicaraguan financial situation in January, 1911, when I was designated by Mr. Knox, former Secretary of State, to assist that country in the efforts to remedy its financial troubles. This designation was made at the request of the Government of Nicaragua. For two weeks after my appointment I was in almost daily conferences with the late Thomas C. Dawson, who had just returned from Nicaragua, where he went as a special envoy or commissioner to study the general political conditions. It was from Mr. Dawson that I secured a great deal of my preliminary information about Nicaraguan affairs. I went to Nicaragua in February, 1911, reaching Managua, the capital, February 14. I was in Managua about three weeks studying such records as were available and holding conferences with former President Estrada, Adolfo Diaz, then vice president and minister of finance, and who is the present President of Nicaragua, and some of the staff of the department of finance. It was exceedingly difficult to get specific information. The Government was new and the employees had not held their positions long enough to be familiar with the archives. Gen. Estrada was most anxious to secure a loan of \$15,000,000, the proceeds to be

used for the refundment of the foreign debt, paying the floating debt existing at that time, for the introduction of a stable currency system, for the payment of awards that might be made by the mixed claims commission in connection with unsettled claims against Nicaragua and for the construction or partial construction of a railroad from the Atlantic coast to Lake Nicaragua.

I returned to the United States and presented the loan proposition either personally or by correspondence to probably between 15 and 20 banking houses in different parts of the country. I received practically no encouragement from any of them excepting from Brown Bros. & Co. and J. & W. Seligman & Co., acting jointly, and from Speyer & Co. I received bids from both of these houses, the more favorable one being from Brown Bros. & Co. and J. & W. Seligman & Co.

At this time there seemed to be no likelihood of the treaty then pending between Nicaragua and the United States being ratified by the United States Senate. I had felt all along that the establishment of a stable currency in Nicaragua was probably of first importance in the work of reconstructing the finances of that country. Between 1901 and 1910, inclusive, exchange had fluctuated between 295 and 1,400. The merchants suffered severely because of these fluctuations in exchange, and I therefore asked Brown Bros. & Co. and J. & W. Seligman & Co. if they would make a preliminary loan to Nicaragua of \$1,500,000, this money to be used for the introduction of a proper currency system and for the establishment of a bank. I might add there that I insisted that that bank should be an American bank, with an American charter, because I had always been rather ambitious to have an American bank in Latin America. The bank was to be the medium through which the proposed new currency system was to be introduced. These bankers agreed to make this loan at par, with 6 per cent interest, with the understanding that they were to get the large loan if it ever materialized. As you know, the treaty between the two countries never was ratified by the United States Senate and the larger loan never was made.

I took these contracts to Nicaragua and they were approved by the National Assembly, without change, October 9, 1911, by a vote of 26 to 6.

Right here, Mr. Chairman, I might say that before this matter was presented to the Nicaraguan Congress the President called a meeting of the prominent men of the country whom he could reach, which he called a junta de notables.

A number of prominent men of Nicaragua were invited to attend at the presidential mansion in Managua on October 2 and state their opinion with reference to the pending loan contracts. Most of those invited attended the meeting, and after a discussion of the matter with the President and his cabinet a resolution indorsing the loan was adopted by unanimous vote. The following is a list of the persons invited; the names underscored are those of persons who attended and voted to indorse the loan. The names followed by an exclamation point (!) are those of persons who did not attend but who, by telegram or otherwise, signified their approval of the loan. The names followed by an interrogation point (?) are those of persons who did not attend but who have signified their disapproval of the loan. The names unaccompanied by any distinguishing mark

are those of persons invited who did not come and have expressed no opinion either in favor or against the loan:

MANAGUA.—*Adán Cárdenas, Fernando Solórzano, Dr. Salvador Castrillo, Dr. Alfonso Solórzano, Dr. Telémaco Castillo, Alcibiades Fuentes, sr., Dr. Máximo H. Zepeda (!), Dr. Juan M. Siero (!), Pablo Hurtado (?)*.

GRANADA.—*Octaviano César, Eulogio Cuadra, Pedro J. Chamorro, Dieglo Manuel Chamorro, Salvador Chamorro, Dr. Rosendo Chamorro, Narciso Arrellano, P. Rafael Cuadra (!), Gabriel Lacayo (!), Martín Benard (!), José Argüello (?), Miguel Gómez (?), Manuel Lacayo, Dr. David Osorno.*

LEON.—*Dr. Heliodoro Arana, Dr. Alfonso Ayón, Dr. Venancio Montalván.*

RIVAS.—*Dr. Manuel Joaquín Barrios, Dr. Donoso Maliaño, Pedro Hurtado, Justo Cárdenas.*

CHINANDEGA.—*Dr. Toribio Tijerino (?), Donoso Gasteazoro.*

MASAYA.—*Dr. Gregorio Pasquier, Dr. Hernán Jarquín, Mariano Lacayo, Honorato Caldera.*

JINOTEPE.—*Dr. Fernando Montiel, José León Román.*

DIRIAMBÁ.—*Vincente Rappachioli, Dr. Moisés Baltodano.*

CORINTO.—*J. Trinidad Cajina.*

LOAN COMMITTEE IN ASSEMBLY.

A special committee appointed by the National Assembly to study and report on the loan contracts, and which rendered a strong report recommending their approval, was composed of the following members of the assembly: Marcos Mairena, Gustavo Guaiérrez, Ramón Beteta, and Alfred W. Hooker.

PAPER CURRENCY OUTSTANDING.

Between my first and second trips to Nicaragua one or two Associated Press dispatches appeared in the New York papers, saying that it was rumored the Nicaraguan Government was issuing more paper money. I came to Washington and met Dr. Castrillo, the former Nicaraguan minister to the United States, at the State Department in conference with Mr. Thomas C. Dawson. Both Mr. Dawson and I pointed out to him that the issue of more paper money by his Government was a most serious error and was bound, if persisted in, to have serious consequences. He promised to communicate this to his Government.

When I reached Nicaragua on my second trip I tried in every way possible to find out just how much paper money had been put out since I had been there before. The American legation had been unable to secure this information and questions put to Nicaraguan officials for some days were met with promises that the information would be prepared. About the time I was getting ready to return to the United States the minister of finance turned over to me a lot of loose data, and in this data I learned that the amount of paper money issued during my absence was 16,000,000 pesos. Exchange at this time, according to my recollection, was very high, I believe about 2,000. When I returned to New York I gave this information to the bankers and to Mr. Charles A. Conant, who later went to

Nicaragua as one of the currency experts to draft the new currency law. Mr. Conant said the amount of money provided for the currency system would probably still be sufficient, but it would mean fixing a pretty high rate of exchange.

Later, as you gentlemen know, the bankers made another advance, this one being for, I believe, \$755,000. Of this \$500,000 was added to the currency reserve fund, and \$255,000 was paid to the Government in installments for running expenses. The addition of \$500,000 to currency reserve fund was needed to make it possible to fix exchange at the rate decided upon.

The next thing of importance was the settlement of the dispute with the holders of the Nicaraguan bonds. On September 5, 1908, the Nicaraguan Congress passed an act authorizing the President to contract for a loan of £1,250,000 sterling upon the most favorable terms as to price, interest, etc. A contract was made with Ethelburga Syndicate January 19, 1909. This contract was modified under date of March 30, 1909.

I do not recall how I first reached the conclusion that there was any cloud on the legality of the Ethelburga contracts. I am inclined to think, however, that the question arose in comparing the original contract of January 19, 1909, with the modified contract of March 30, 1909. The modified contract was not so favorable to Nicaragua, and it did not seem to me that it had ever been properly ratified. My recollection is that I then took up the question with Mr. Dawson and he agreed with my conclusion, and later, when I was negotiating with Brown Bros. & Co. and J. & W. Seligman & Co., I learned that Mr. Mallet-Prevost held a similar view. I never was of the opinion, however, that if the loan had been carried out on the terms of the contract of January 19, 1909, that any question could have been properly raised as to the legality of that contract.

The settlement finally arranged with the holders of these bonds, among other things, reduced the rate of interest from 6 to 5 per cent, which on \$6,000,000 of bonds means a saving of \$60,000 a year for about 30 years. They were 35-year bonds, and several years had expired, so it was about 30 years.

Senator HITCHCOCK. When did that reduction occur, from 6 to 5?

Mr. WANDS. I have forgotten the exact date, Senator, but it was in May, 1912, that the conclusion was reached, and I think it was May 23, but that will be shown in a copy of the contract between the Council of Foreign Bondholders of London and Brown Bros. & Co. and J. & W. Seligman & Co., which I understand Mr. Mallett-Prevost has turned over with the other documents. He told me he had turned over a complete set of documents.

Senator SMITH of Michigan. When you refer to the London people you refer to the Fuerth people, do you not?

Mr. WANDS. Do you mean just now? No; I refer to the Council of Foreign Bondholders.

Senator SMITH of Michigan. That is a sort of clearing house for foreign securities?

Mr. WANDS. The Council of Foreign Bondholders holds a unique position in England. They have wonderful power. I believe if you got into any dispute with them over any bonds, they can even prevent the listing of your bonds on the London Stock Exchange, and it is customary to deal with them in settlement.

Senator SMITH of Michigan. They have in bond matters substantially as sweeping authority as the board of trade has in matters of shipping?

Mr. WANDS. Yes, Senator; absolutely.

Senator SMITH of Michigan. But they are really a clearing house after all, because if you have got anything, you put it in there, they watch over it, turn it back to you, tell you of the daily values, and at the end of their deal they take just a small nominal fee for that service. Am I right?

Mr. WANDS. There was a fee, Senator, but I do not remember what it was.

Senator SMITH of Michigan. I want to get well in mind the difference between the real owners of the bonds and the Council of Foreign Bondholders.

Mr. WANDS. The Council of Foreign Bondholders do recommend a settlement to the owners of the bonds.

Senator SMITH of Michigan. I understand you that that is just a clearing house, so to speak?

Mr. WANDS. They act as a committee, a self-appointed committee.

Senator SMITH of Michigan. But they have not a dollar's interest in the securities they pass on?

Mr. WANDS. Not a dollar's interest.

Senator HITCHCOCK. What I want to find out is this: You say that reduction of interest from 6 to 5 was in May, 1912?

Mr. WANDS. I think it was May 23, 1912. I do not know what date—

Senator HITCHCOCK. Was it made by the Ethelburga Syndicate?

Mr. WANDS. No, sir; that was made between Brown Bros. and Seligman, and the Council of Foreign Bondholders. They had tried to reach a settlement with Fuerth, and Fuerth had failed to carry out an arrangement made with him. He made an arrangement with us in New York, and when he got back to London he was unable to carry it out.

Senator SMITH of Michigan. What did it apply to?

Mr. WANDS. That was a settlement of this dispute between Nicaragua and the holders of Nicaraguan bonds.

Senator HITCHCOCK. What date did this reduction apply to?

Mr. WANDS. The rate of interest from 6 to 5 stayed on all the bonds outstanding.

Senator HITCHCOCK. On Ethelburga Syndicate bonds outstanding?

Mr. WANDS. Yes; the 1909 bonds are the Ethelburga bonds.

Senator HITCHCOCK. What was the consideration for that reduction?

Mr. WANDS. There was no special consideration, as I know, Senator, excepting that we claimed the second contract had not been modified, and we tried to get it as near to the first contract as was possible.

Senator WILLIAMS. You do not mean the second contract had not been modified. You mean it had not been ratified.

Mr. WANDS. That is right. Excuse me. We maintained all along that the modified contract had not been ratified. Therefore we could fight on that point.

Senator HITCHCOCK. They compromised the matter by taking 5 per cent?

Mr. WANDS. They compromised the matter by taking 5 per cent. Then there was also on deposit in London an amount of money, something over £350,000—the exact amount I have not in my head—and that was earmarked for railroad construction.

Senator SMITH of Michigan. Right there, that £350,000 was held by the Ethelburga Syndicate from the hypothecation or sale of Ethelburga bonds?

Mr. WANDS. That was held from the sale of Ethelburga bonds.

Senator SMITH of Michigan. That money was to be expended under their agreement in this line to the Atlantic coast?

Mr. WANDS. Yes.

Senator SMITH of Michigan. And, as a matter of fact, 12 miles of that road were graded, so that the money was not expended there?

Mr. WANDS. No; that money was not expended.

Senator SMITH of Michigan. I understand. Now, go ahead in your own way.

Mr. WANDS. My connection with this settlement was to go to Paris to negotiate with the committee there representing the continental bondholders. They agreed to the settlement arranged by the bankers representing Nicaragua with the Council of Foreign Bondholders of England, but only after they had been told that no changes of any sort would be agreed to by me.

Senator HITCHCOCK. Who are the continental bankers?

Mr. WANDS. I mean on the Continent. There is a committee in Paris similar to the committee of foreign bondholders in England. It is not so strong, but it does the same work, and they represented the holders of the bonds on the European Continent.

Senator HITCHCOCK. Those bonds are not included in the Ethelburga Syndicate?

Mr. WANDS. Yes, sir; they are all so-called Ethelburga bonds. They were held all over Europe. I heard of committees organized in little towns in Spain. I do not know how many bonds they held. Maybe half a dozen, but the French committee virtually represented all of them.

Senator HITCHCOCK. Do you know what prices those bonds were bought and sold for before the organization of the Ethelburga Syndicate?

Mr. WANDS. Those bonds were bought by the Ethelburga Syndicate. That was the origin of them.

Senator HITCHCOCK. Before that time there was an indebtedness of 500,000 pounds?

Mr. WANDS. Those were two loans that were converted out of this loan.

Senator HITCHCOCK. What did they sell for?

Mr. WANDS. I do not know. I never knew. It all happened before my connection with it, and most of them had been converted before my connection with it.

Senator HITCHCOCK. Have you any idea what has been the price of Ethelburga bonds on the market since 1909?

Mr. WANDS. I thought that point might come up, so I had this prepared from the London Economist, giving the bought and asked price and the high and low price from January, 1911, right down to date [referring to statement].

Senator HITCHCOCK. What is the high and low?

Mr. WANDS. There is quite a table here. I should like to look it over. There is the whole thing [indicating]. That was taken from the London Economist.

Senator SMITH of Michigan. And that you offer in evidence?

Mr. WANDS. Yes.

The CHAIRMAN. Would you like to have that in the record?

Mr. WANDS. Yes.

(The statement referred to is as follows:)

QUOTATIONS IN THE ECONOMIST OF THE NICARAGUA BONDS DURING 1911.

	Bid.	Asked.	Low.	High.
1911.				
Jan. 7.....	69	71	69	71
Jan. 14.....	69	71		
Jan. 21.....	69	71		
Jan. 28.....	69	71		
Feb. 4.....	69	71	70	72
Feb. 11.....	69	71		
Feb. 18.....	70	72		
Feb. 25.....	70	72		
Mar. 4.....	70	72	70	72
Mar. 11.....	70	72		
Mar. 18.....	70	72		
Mar. 25.....	70	72		
Apr. 1.....	70	72	80	84
Apr. 8.....	70	72		
Apr. 15.....	75	80		
Apr. 22.....	78	82		
Apr. 29.....	80	84	80	84
May 6.....	80	84		
May 13.....	80	84		
May 20.....	80	84		
May 27.....	80	84	80	84
June 3.....	80	84		
June 10.....	80	84		
June 17.....	80	84		
June 21.....	80	84	80	84
July 1.....	80	84		
July 7.....	78	82		
July 15.....	78	82		
July 22.....	78	82	80	84
July 29.....	78	82		
Aug. 5.....	78	82		
Aug. 12.....	78	82		
Aug. 19.....	78	82	78	82
Aug. 26.....	78	82		
Sept. 2.....	78	82		
Sept. 9.....	78	82		
Sept. 16.....	78	82	78	82
Sept. 23.....	78	82		
Sept. 30.....	78	82		
Oct. 7.....	78	82		
Oct. 14.....	78	82	78	82
Oct. 28.....	78	82		
Nov. 4.....	78	82		
Nov. 11.....	78	82		
Nov. 18.....	78	82	78	82
Nov. 25.....	78	82		
Dec. 2.....	78	82		
Dec. 9.....	78	82		
Dec. 16.....	78	82	78	82
Dec. 23.....	78	82		

290 CONVENTION BETWEEN UNITED STATES AND NICARAGUA.

QUOTATIONS FROM MESSRS. BROWN, SHIPLEY & CO., LONDON, DURING 1912 OF
(ETHELBURGA CERTIFICATES) NICARAGUA BONDS.

	Bid.	Asked.	Low.	High.
1912.				
Jan. 2.	80	82		
Jan. 3.	81½	82½		
Jan. 4.	82	83		
Jan. 5.	82½	83½		
Jan. 6.	83	84		
Jan. 8.	83½	84½		
Jan. 10.	83½	84½		
Jan. 11.	83½	84½		
Jan. 12.	82	83		
Jan. 13.	82½	83½		
Jan. 15.	82½	83½		
Jan. 16.	82	83		
Jan. 17.	82	83	83½	84½
Jan. 18.	82	83		
Jan. 19.	82	83		
Jan. 20.	82½	83½		
Jan. 22.	83½	84½		
Jan. 23.	83½	84½		
Jan. 24.	83½	84½		
Jan. 25.	83½	84½		
Jan. 26.	83½	84½		
Jan. 27.	83½	84½		
Jan. 29.	83½	84½		
Jan. 30.	83½	84½		
Feb. 1.	82	83		
Feb. 3.	80½	81½		
Feb. 5.	78½	79½		
Feb. 6.	75	77		
Do.	74	76		
Feb. 7.	72½	73½	82	83
Feb. 8.	74½	75½		
Feb. 9.	75½	76½		
Feb. 10.	76½	77½		
Feb. 17.	77½	78½		
Feb. 19.	79½	80½		
Feb. 20.	77½	78½		
Mar. 8.	76	77		
Mar. 16.	75	76	76	77
Mar. 28.	76	77		
May 2.	81½	82½		
May 9.	80½	81½	81½	82½
May 10.	79½	80½		
May 20.	81	82		
May 21.	80	81		
May 24.	81½	82½	83	84
May 28.	83	84		
May 31.	82	83		
June 1.	83½	84½		
June 3.	84½	85½	86½	87½
June 7.	86½	87½		
June 27.	84½	85½		
July 1.	86	87	86	87
July 17.	86	87		
Sept. 27.	89	90	89	90
Oct. 5.	88	89		
Oct. 10.	87	88		
Oct. 15.	83	85	88	89
Do.	85	87		
Oct. 17.	87½	88½		
Nov. 1.	88½	89½		
Nov. 6.	89½	90½		
Nov. 14.	85	86		
Nov. 15.	86	87		
Nov. 18.	85	86	89½	90½
Dec. 14.	83½	84½	84½	85½
Dec. 28.	84½	85½		

¹ Except 5½ per cent interest per annum.

QUOTATIONS RE ETHELBURGA CERTIFICATES RECEIVED DURING 1913 AND 1914
FROM MESSRS. BROWN, SHIPLEY & CO.

	Bid.	Asked.	Low.	High.
1913.				
Jan. 2.....	82½	83½	82½	83½
Feb. 15.....	83½	84	83½	84
March.....	83½	84	83½	84
April.....	83	84	83	84
May.....	83	84	83	84
June 7.....	82	83	82	83
June 17.....	81	82		
July 1.....	79½	80½		
July 12.....	78	79	82	83
July 15.....	78	79		
July 21.....	80	81		
July 22.....	81	82		
July 24.....	82	83	81	82
Aug. 8.....	81	82		
Sept. 9.....	80	81	80	81
Oct. 27.....	79	80	79	80
Dec. 5.....	78	79	78	79
Dec. 10.....	80	81	80	81
1914.				
Jan. 2.....	77½	78½	81	83
Jan. 27.....	78½	79½		
Jan. 31.....	81	83		
Feb. 4.....	82	83	82	83
Feb. 9.....	81	82		
Feb. 26.....	80	81		
Mar. 9.....	79	80	79	80
Mar. 21.....	78	79		
June 9.....	77	78	77	78

Senator HITCHCOCK. Beginning with January, 1911, they have been rising in value, then, apparently, or in price. They start in January, 1911, at 69, and with slight modifications they rise until at the highest point they sell for 89.

Mr. WANDS. I do not know how high they got, Senator, without looking that over.

Senator WILLIAMS. Ninety and one-half is the highest.

Mr. WANDS. Yes; December, 1912.

Senator SMITH of Michigan. They were lowest just before the Diaz administration?

Mr. WANDS. I do not know, Senator, I am sure. I knew at different times what the prices were. I thought this question might come up so I had that statement prepared.

Senator HITCHCOCK. Can you give any reason why those bonds have advanced in market value?

Mr. WANDS. May I look at that and see the date, and perhaps I can? Senator, let me say this without consulting this statement: When Mr. Dawson went to Nicaragua, the people holding the bonds—I am simply speaking as any man would do who had held such security—they felt that here is the United States coming in here to help these people out, so a lot of speculators, I assume—I do not know—went in there and bought bonds, because the bonds would go up in price. That is the only explanation I can offer.

Senator HITCHCOCK. I assume that was it.

Senator SMITH of Michigan. Why do you start in January, 1911?

Mr. WANDS. I had no connection with it before that time, and it is rather difficult to get this information.

Senator SMITH of Michigan. You studied the question?

Mr. WANDS. Yes; I studied the question.

Senator SMITH of Michigan. You were employed as an expert to study the question? I want to find out what they were worth before that.

Mr. WANDS. I did at the time, Senator. I will also offer, Senator, my report on the matter in 1911, which may give some of that information. It is so long ago that I do not recall it.

Senator SMITH of Michigan. Who was it made to?

Mr. WANDS. The Secretary of State.

Senator SMITH of Michigan. How far back does that go?

Mr. WANDS. This is dated May 13, 1911.

Senator SMITH of Michigan. But how far back do your figures go?

Mr. WANDS. It gives the general financial situation of the country at that time, with such information as I could get from the Nicaraguan officials.

Senator SMITH of Michigan. What I am trying to get at is whether you know anything about the value of those bonds or what they were being sold for prior to the administration of Estrada and Diaz, Diaz being Vice President?

Mr. WANDS. Perhaps I have that here. I asked Fuerth to give me the dates. It is included here in my report. I asked him to give the dates on which the different parcels of bonds were sold, and Mr. Fuerth sent it to Messrs. Speyer & Co. The reason that he sent it to them was that he was making his headquarters at Speyer's while in New York.

Nicaragua half a million reserve for conversion balance has been sold as follows: During month of May, 1900, public issue, London, Paris, Brussels, Amsterdam, £433,000, average 92½ per cent. (Full stop.) Until end of 1910 have been sold options syndicate £86,440 at 81, resold public, average 88. (Full stop.) During month of January, 1911, sold Erlanger firm £106,000, 83, resold public, average 87½ per cent. (Full stop.) Erlanger under option since taken £106,000, 84, resold public, average 87½. (Full stop.) Have been sold market by us £18,560, average 87½ per cent. (Full stop.)

Senator SMITH of Michigan. What is the date of that?

Mr. WANDS. That is May, 1909, and then it is during the month of January, 1911.

Senator SMITH of Michigan. Was that before this bond of 1909 was put out?

Mr. WANDS. No, sir; these are the 1909 bonds. This is Fuerth's explanation of how those bonds were marketed.

Senator SMITH of Michigan. I suppose that includes what they allowed the Government of Nicaragua for them when they took them over?

Mr. WANDS. Yes, sir.

Senator SMITH of Michigan. What did they allow the Government of Nicaragua?

Mr. WANDS. They bought the bonds at 75—6 per cent bonds.

Senator SMITH of Michigan. Seventy-five?

Mr. WANDS. Seventy-five. Of course, there was the conversion first to be taken care of of those two issues that were outstanding.

Senator SMITH of Michigan. Then there was the railroad contract which was part of that arrangement?

Mr. WANDS. The railroad contract was part of the securities, Senator.

Senator SMITH of Michigan. It is part of the arrangement, it is all in the Ethelburga business? They were to construct this railroad and have a contract for it—

Mr. WANDS. Yes; the money was to be obtained out of the sale of these bonds.

Senator SMITH of Michigan. Exactly. So while on their face they might show 75, there might be a net under that, on the building of the railroads, that would materially reduce the face value?

Mr. WANDS. Of course, they did not get very far with the railroad, and that money was afterwards recovered.

Senator SMITH of Michigan. No; but they got a good ways with the money.

Mr. WANDS. I believe the bankers have a statement showing exactly what was done with that money. I have it very roughly, but they have it right in their books, and they told me that a statement was being prepared which they would bring over.

I do not know whether you want this statement [indicating]. I happen to have it brought up to date. This is the customs collection since the American collector went in.

Senator WILLIAMS. Yes; we would like to have it.

Mr. WANDS. It seems to be up to March, 1914.

Senator SMITH of Michigan. Where did you get that?

Mr. WANDS. We got this from the bankers a day or two ago. You see all the reports are made to them, and I asked them to prepare it for me and send it to me. I got it a day before I left.

Senator SMITH of Michigan. I suppose they will have them all here?

Mr. WANDS. Yes.

Senator SMITH of Michigan. Are you still in the employ of the Nicaraguan Government?

Mr. WANDS. No, sir; I have not had anything to do with Nicaragua for a year and three or four months.

Senator SMITH of Michigan. Are you an employee of Brown Bros.?

Mr. WANDS. No, sir; I am not employed by them at all, and never have been employed by them.

Senator SMITH of Michigan. You just got that from them?

Mr. WANDS. Just as a matter of courtesy, because of my former connection with the matter and my interest in it.

Senator WILLIAMS. And the fact that you knew you were going to be a witness here?

Mr. WANDS. Yes, sir; I told them I thought I ought to have that information.

The CHAIRMAN. Does that paper include collections of customs prior to Col. Ham's administration?

Mr. WANDS. No, sir; that is just the report of the American collector.

Senator HITCHCOCK. Mr. Wands, at the time the Ethelburga people loaned this £1,200,000 to Nicaragua, and with part of it took up £500,000 that were outstanding, were they the holders of those outstanding bonds?

Mr. WANDS. Of these bonds that they converted?

Senator HITCHCOCK. Yes.

Mr. WANDS. No; I assume not. They may have gotten an option on some of them. Fuerth represented to me that he had to pay over par for some of those bonds.

Senator HITCHCOCK. Did he say what he paid for all of them?

Mr. WANDS. No, sir. I asked him that, and he said he got them at different prices. He said he had great difficulty in getting them all

in, and he said for some he had to pay above par. That was Mr. Fuerth's statement.

Senator HITCHCOCK. They were not due?

Mr. WANDS. They were not due, and the people held on to them.

Senator HITCHCOCK. Were they a lien on the customs?

Mr. WANDS. Yes; they were a lien on certain customs.

Senator HITCHCOCK. Was the interest paid regularly?

Mr. WANDS. I think the interest was paid regularly, Senator. I am not absolutely positive.

Senator HITCHCOCK. Will these bankers know that fact?

Mr. WANDS. They will know more about it than I will, because a number of the bonds that had not been converted, I believe, have since been converted with the approval of the Government of Nicaragua.

Senator HITCHCOCK. It seems so unreasonable that those bonds should be above par on the market when poor Nicaragua was compelled to accept the new bonds at 75.

Mr. WANDS. I judge, Senator, that it was a hold-up on the part of the man or men who held the bonds, and I tell you I am giving you that on Mr. Fuerth's statement. I had no means of knowing except from his statement. He was the man, or his syndicate, that bought them in.

Senator HITCHCOCK. Could not the representatives of Nicaragua tell us?

Mr. WANDS. I do not think they would know. I do not see how they would possibly know.

Senator SMITH of Michigan. In connection with this memorandum of customs receipts, which you have handed to the committee, I have here a circular issued by a bond-selling firm in Chicago, who held some of these Nicaraguan bonds, Messrs. Cutter, Waller & May, and in their statement they say that—

The monetary unit of Nicaragua is the dollar (or peso) and is based upon silver, the average value of the peso in United States gold being about 40 cents.

Total receipts for the year ending Dec. 31, 1906.....	\$42, 137, 978. 25
Total expenditures for the year ending Dec. 31, 1906.....	9, 797, 544. 36

Total receipts over expenditures in the year 1906..... 32, 340, 433. 89

I would like to ask you if this familiarity with Nicaraguan finance enables you to reconcile—

Mr. WANDS (interposing). I do not believe it is correct, Senator. That is the only statement I can make about it.

Senator SMITH of Michigan. It is the statement of a reputable concern who offered these bonds for sale.

Mr. WANDS. I do not know of any country in Central Latin America whose revenues were that far ahead of their expenses.

Senator SMITH of Michigan. It reads:

We own and offer at par and interest, subject to prior sale and advance in price, the unsold portion of \$200,000 Republic of Nicaragua 6 per cent gold bonds dated June 15, 1904, and maturing serially June 15, 1914, and every five years thereafter to and including 1929. Denomination, \$1,000. Principal and semiannual interest (June 15 and Dec. 15) payable in gold coin of the United States of America, at the Whitney Central National Bank in the city of New Orleans, La., the fiscal agent of the Republic.

Then follows a financial statement of the Republic. Then follows this statement of income which I have given. And then follows the total internal debt of the Republic.

Senator HITCHCOCK. How large is that?

Senator SMITH of Michigan. The total internal debt December 31, 1905, was \$14,547,635.75; the total internal debt December 31, 1906 (which antedates your occupancy), was \$13,674,650.62, or a decrease in the internal debt of 1906 of \$872,985.13.

I would offer this in evidence except for the fact that in this circular there is a quotation from a letter which I do not feel at liberty to put into the record. That is the reason I read the figures instead of offering it in the record. I have no objection to the committee seeing it, but I do not offer it because I do not want to encumber the record at this time with that statement.

Mr. WANDS. Senator, the principal revenues of Nicaragua are, and always have been, their customs receipts. The best figures that I could obtain in Nicaragua when I went there first indicated that it was safe to count on about \$75,000 United States gold a month. I would not go further in dealing with a banking house than to say that I felt they could safely count on that amount. The first six weeks, as I recall it now, that the American collector was in office the revenues were only about—I have forgotten the figures. They do not seem to be given here, because they put it down as January. Any way, we will take the month of January. They put the revenues from customs receipts as \$44,885.72. I assume they were low, because a lot of people took advantage of the fact that an American collector was coming in, and perhaps they feared he might be very, very stringent, and they had rushed their things in earlier. The consequence was there was little coming in that month. That was the only way I could explain it. The revenues have come up considerably, as you will see, since I made my report indicating a possible revenue of \$75,000 a month, or \$900,000 a year. In January, 1912, it was \$44,885.72; February, 1912, \$80,098.46; March, \$108,441.45; April, \$91,684.26; May, \$133,723.49; and in June, \$160,730.64.

EXHIBIT A.

Memorandum of comparative customs receipts.

[Mar. 19, 1914.]

1912 AND 1913.

	1912	1913	Increase.	Decrease.
January.....	\$44,885.72	\$149,945.98	\$105,060.26	.....
February.....	80,098.46	126,957.25	46,858.79	.....
March.....	108,441.45	139,518.74	31,077.29	.....
First quarter.....	233,435.63	416,421.97	182,996.34	.....
April.....	91,684.26	154,767.38	63,083.12	.....
May.....	133,723.49	150,718.94	16,995.45	.....
June.....	160,730.64	150,006.12	.....	10,724.52
Second quarter.....	386,138.39	455,492.44	69,354.05	.....
July.....	121,483.37	181,629.84	60,146.47	.....
August.....	56,372.64	140,051.16	83,678.52	.....
September.....	30,890.36	153,623.17	122,732.81	.....
Third quarter.....	208,746.37	475,304.17	266,557.80	.....
October.....	105,704.01	125,901.40	20,197.39	.....
November.....	102,769.56	125,492.42	22,722.86	.....
December.....	135,611.30	130,401.09	.....	5,210.21
Fourth quarter.....	344,084.87	381,794.91	37,710.04	.....
Total.....	1,172,395.26	1,729,013.49	556,618.23	.....

Memorandum of comparative customs receipts—Continued.

- 1913 AND 1914.

	1913	1914	Increase.	Decrease.
January.....	\$149,945.98	\$158,251.36	\$8,305.38	.....
February.....	126,957.25	156,910.64	29,953.39	.....
March.....	139,518.74	118,220.40		\$21,298.34
First quarter.....	416,421.97	433,382.40	16,960.43	.....
April.....	154,767.38			.....
May.....	150,718.94			.....
June.....	150,006.12			.....
Second quarter.....	455,492.44			.....
July.....	181,629.84			.....
August.....	140,051.16			.....
September.....	153,623.17			.....
Third quarter.....	475,304.17			.....
October.....	125,901.40			.....
November.....	125,492.42			.....
December.....	130,401.09			.....
Fourth quarter.....	381,794.91			.....
Total.....	1,729,013.49			.....

I said to the bankers in my negotiations, "The only thing I will put on paper to you, gentlemen, is that it is safe to count on \$75,000 a month. My prediction is that if there are no revolutions in Nicaragua you will probably have a yearly revenue close on to \$2,000,000 within two years."

My prediction has been borne out.

Senator SMITH of Michigan. I do not want to be at all personal or offensive. I guess you know that.

Mr. WANDS. I know that.

Senator SMITH of Michigan. But I do want to get at the truth, if it is possible, and I think it is. I want to read this to you and ask you if it is correct. It reads:

The loan provided for by the Dawson convention, and subsequently a reality by virtue of the Castrillo-Knox loan treaty, ratified by the Nicaraguan Assembly, although failing of ratification by the United States Senate, instead of being guaranteed as originally stipulated and intended by a certain percentage of the customs receipts of the Republic, has been so twisted and manipulated in the interest of the bankers making the loan as to permit their representatives who are the collectors of customs in the several customhouses to retain all the receipts, thus leaving nothing for the support of the Government, whose employees have not been paid their salaries for 10 months. Even the railroads and steamboat lines—Government property—have been turned over to the bankers, as well as the tobacco and alcoholic revenues, and Nicaragua has been left practically nothing but the soil, a large and unprovided for interior debt, and a patient and gentle people, who, following the days of revolution, have protested against this kind of diplomacy.

How nearly correct is that?

Mr. WANDS. Senator, I do not think that is correct. Of course, I know nothing of what has happened in the last year and three months, since the loan of October, I think it was—1913. The bankers did not have the alcoholic receipts, to begin with. They did have the customs revenues, and then they made advances of different

kinds out of the customs revenues of Nicaragua. They had a second lien. The Ethelburga bondholders had the first lien. I do not believe they have anything to do with the alcoholic revenues. I believe for a while they collected those taxes for the Government.

Senator SMITH of Michigan. You were employed—requested by the State Department—or, rather, the State Department has been requested by the Nicaraguan Government to send to Nicaragua a financial expert, whose duty it would be to examine carefully into the Government financial conditions, income and indebtedness, and its safe margin of borrowing capacity?

Mr. WANDS. Yes, sir.

Senator SMITH of Michigan. You were that expert?

Mr. WANDS. Yes, sir.

Senator SMITH of Michigan. What has been your experience as a banker?

Mr. WANDS. I am not a banker, but I have been in financial things of many kinds for a good many years in New York.

The CHAIRMAN. Who paid your expenses and salary?

Mr. WANDS. My salary and expenses were paid for—I do not remember exactly, Mr. Chairman, but a little over a year—by the State Department. After that, until I finished, by Nicaragua.

Senator SMITH of Michigan. Did you account to the State Department for your time during that period?

Mr. WANDS. Yes, sir. I did absolutely no other work while I was working on the Nicaragua matter. I refused to do any outside work of any sort.

Senator SMITH of Michigan. You say that for the first year you were paid by the State Department?

Mr. WANDS. I think it was over a year; a year and a few months. I do not remember the exact time.

Senator SMITH of Michigan. How much did you receive?

Mr. WANDS. \$8,000 a year.

Senator SMITH of Michigan. And your expenses?

Mr. WANDS. And my expenses when I was away from my headquarters, and expenses for cables, and expenses for telegrams, and expenses for typewriting. I had no secretary. When I had typewriting to do, I simply got some one to do it, and make an arrangement for the job. That was done sometimes in Washington, sometimes in New York, and sometimes in Nicaragua.

Senator SMITH of Michigan. You got \$8,000 and expenses?

Mr. WANDS. Yes, sir; my traveling expenses, postage, cables, and things of that sort.

Senator SMITH of Michigan. You were sent to Nicaragua in February, 1911?

Mr. WANDS. I reached there, I think, February 14.

Senator SMITH of Michigan. Did Mr. Northcott, the American minister, accompany you?

Mr. WANDS. Yes, sir; we went down together—Mr. Northcott, Mr. Gunther, who was secretary of the legation, and Mr. Northcott's clerk, whose name I have forgotten.

Senator SMITH of Michigan. What was Mr. Gunther's full name?

Mr. WANDS. Franklin M. Gunther.

Senator SMITH of Michigan. Was he connected with the Government at that time—

Mr. WANDS. He was secretary of the legation.

Senator SMITH of Michigan. At Managua?

Mr. WANDS. Yes, sir; they were both new appointees to that post.

Senator SMITH of Michigan. Were you with Minister Northcott when he presented his credentials?

Mr. WANDS. Yes, sir.

Senator SMITH of Michigan. Did you hear his remarks at that time?

Mr. WANDS. Yes, sir.

Senator SMITH of Michigan. They were rather complimentary to you?

Mr. WANDS. Yes, sir; I think they were.

Senator SMITH of Michigan. Do you recall whether he said that—in presenting his credentials to the Estrada Government he presented Mr. Wands, who by the designation and at the request of your excellency's Government is one of the most eminent authorities on finance in my country.

Do you remember his saying that?

Mr. WANDS. I have no doubt he said it, if you say so, but, Senator, I did not see that before it was made. I think I am fairly modest.

Senator SMITH of Michigan. I do not want to cast any reflection at all, but I just want to follow that with another question, as to how long you were there in studying the financial fiscal situation of that country at that time.

Mr. WANDS. About three or four weeks.

Senator SMITH of Michigan. You were there more than seven days?

Mr. WANDS. Yes, sir.

Senator SMITH of Michigan. And did you return there again?

Mr. WANDS. Yes, sir; I went back the same year, in September.

Senator SMITH of Michigan. How long did you stay?

Mr. WANDS. Two or three weeks. I went then with the loan contract, and I came back after the loan contract had been approved.

Senator SMITH of Michigan. Is that all the time you spent there?

Mr. WANDS. That is all the time. The next trip I had was to Paris on this settlement with the bondholders there.

Senator SMITH of Michigan. If you were sent down there for the purpose of studying the financial condition of Nicaragua, you did it in two visits of three weeks each?

Mr. WANDS. That is right, sir. Senator, before I went down, almost immediately after I was designated, I drew up a list of questions on which I wanted information. I turned that over to Dr. Castrillo, and Dr. Castrillo cabled it to Nicaragua, asking them to have their proper people prepare that information for me. Most of that information was ready when I reached Nicaragua, figures and things of that sort.

Senator SMITH of Michigan. Your visit was in February, 1911. Have you anything to show exactly when you reached there?

Mr. WANDS. No; I do not think I have. I did not think anything about that.

Senator SMITH of Michigan. And your second visit—

Mr. WANDS. Was in September.

Senator SMITH of Michigan. It was in October, was it not?

Mr. WANDS. No, sir; it was in September, as I recall it. I think I left here in the first week in September on my second trip.

Senator SMITH of Michigan. And reached there probably——

Mr. WANDS. In a couple of weeks.

Senator SMITH of Michigan. About October, perhaps?

Mr. WANDS. Senator, I would like to say another thing: I would have stayed longer in Nicaragua on my first trip, but Mr. Northcott was very, very anxious, and so was the Nicaraguan Government, that I should get back to the United States to see what could be done about getting some money for them, and I left rather earlier than I would have left otherwise. In addition, they had prepared this information, or most of it, that I had asked for by cable—that Dr. Castrillo had asked for by cable—and it did not seem that there was any further information.

Senator SMITH of Michigan. Have you copies of those cables?

Mr. WANDS. I may have somewhere, but I do not recall. I turned it over to Dr. Castrillo and he cabled. It was simply asking, you know, revenues by years, and customs receipts, and things of that sort. I have forgotten now myself what it was.

Senator SMITH of Michigan. Let me ask you how much you received. You say the first year you were paid by the State Department your salary and expenses?

Mr. WANDS. The first year and some few months.

Senator SMITH of Michigan. Then by whom were you paid?

Mr. WANDS. Then by Nicaragua.

Senator SMITH of Michigan. How much did you receive when paid by Nicaragua?

Mr. WANDS. This is from memory, Senator. I think I was paid by the United States from the time of my designation until about June of the following year, say, about June, 1912. Then I was paid by Nicaragua for about 8 or 9 or 10 months.

Senator SMITH of Michigan. How much did you receive?

Mr. WANDS. At the same rate, sir; \$8,000 per year and such expenses as I had.

Senator SMITH of Michigan. Who paid you, the bankers or——

Mr. WANDS. The bankers paid on authority from Nicaragua.

Senator SMITH of Michigan. Does that represent your entire connection with the financial affairs of Nicaragua?

Mr. WANDS. Absolutely.

Senator SMITH of Michigan. And your entire connection with the financial affairs of Brown Bros. and Seligman?

Mr. WANDS. Yes, sir; I have no connection and I never have had any connection with Brown Bros. and Seligman.

Senator SMITH of Michigan. When did you go to Europe?

Mr. WANDS. That was in the spring of 1912.

Senator SMITH of Michigan. And where did you go?

Mr. WANDS. I went to Paris.

Senator SMITH of Michigan. From here?

Mr. WANDS. Yes, sir; from New York.

Senator SMITH of Michigan. From New York to Paris?

Mr. WANDS. Yes.

Senator SMITH of Michigan. Whom did you see in Paris besides Mr. Fuerth?

Mr. WANDS. I did not see Mr. Fuerth. I met him in the street. I went over there to see this French committee.

Senator SMITH of Michigan. You saw him?

Mr. WANDS. I met Fuerth on the street just accidentally. That was the only time I saw him; just to talk to him in the street.

Senator SMITH of Michigan. Who else did you see?

Mr. WANDS. I made my headquarters at Seligman Frers. One or two of the bankers, whose names I have forgotten, who had been associated with the Ethelburga Syndicate in regard to these bonds, came into Seligman Frers—I believe, at the suggestion of the Seligman—to hear what settlement had been proposed. I have forgotten those gentlemen's names, even.

Senator SMITH of Michigan. What settlement did you propose?

Mr. WANDS. This reduction of the interest from 6 to 5. That is in the contract. I do not know that I have a copy of it here. I thought Mr. Mallet-Prevost had left a copy. That was the same settlement, Senator, that was reached with the foreign bondholders.

Senator SMITH of Michigan. Was there any discussion with those bankers as to the desirability of buying any holdings?

Mr. WANDS. Not at all; never at any time.

Senator SMITH of Michigan. Where did you go from Paris?

Mr. WANDS. I went to London, stayed there three or four days, and then went home.

Senator SMITH of Michigan. Did you not go to Amsterdam?

Mr. WANDS. No, sir; I was in Brussels; but I did no business in Brussels. I got a cable that the thing was temporarily held up in New York while they were discussing things with Cooper, and they did not want the French committee to know I was there until they could reach a conclusion with Cooper. They said, "You had better get out of Paris for a few days." So I went over to Brussels for a week or 10 days.

Senator SMITH of Michigan. But you did not go to Amsterdam?

Mr. WANDS. No, sir; I have never been in Amsterdam in my life.

Senator SMITH of Michigan. Who recommended you to the Nicaraguan Government?

Mr. WANDS. I suppose the Secretary of State did—somebody in the State Department.

Senator SMITH of Michigan. Mr. Knox?

Mr. WANDS. Yes, sir.

Senator SMITH of Michigan. Had Mr. Knox known you before?

Mr. WANDS. I had done several pieces of work for the State Department in Latin America.

Senator SMITH of Michigan. Where?

Mr. WANDS. I was the commissioner to the centennial in the Argentine the year before. I had been the commissioner to Ecuador the year before that, and I had been mixed up in Latin American affairs for a great many years. I have been going to Latin America on private matters off and on for a good many years.

Senator SMITH of Michigan. Have you been to Honduras?

Mr. WANDS. No, sir; I have just been on the coast of Honduras once in my life, maybe 15 years ago.

Senator SMITH of Michigan. You did not go there at the time this so-called loan and treaty were pending there?

Mr. WANDS. The only time I was ever in Honduras in my life was probably one day when the steamer stopped at a port, the name of which I have forgotten. That was 15 years ago.

Senator SMITH of Michigan. Did you not go to Guatemala?

Mr. WANDS. No, sir; I did not go to Guatemala. I did not even cross it on my way to Nicaragua. I went by way of Panama and returned that way on one trip. I went by way of Mexico on the first trip.

Senator SMITH of Michigan. Had you ever done any other work for Mr. KNOX?

Mr. WANDS. No, sir; just those two times. In fact, I think the first one was when Mr. Root was Secretary of State.

Senator SMITH of Michigan. When you were first sent out?

Mr. WANDS. When I went to Ecuador I think Mr. Root was Secretary of State.

Senator SMITH of Michigan. I have not got it very clear in my mind how much experience you have had in financial affairs.

Mr. WANDS. I have been working in the financial district for a good many years in private matters.

Senator SMITH of Michigan. You mean in New York?

Mr. WANDS. Yes, sir; in New York.

Senator SMITH of Michigan. What kind of matters?

Mr. WANDS. Well, different negotiations in connection with private business matters.

Senator SMITH of Michigan. Stocks and bonds?

Mr. WANDS. Stocks and bonds and underwriting.

Senator SMITH of Michigan. So that that constituted practically your experience?

Mr. WANDS. Practically 10 or 15 years. I am a little older than I look.

Senator SMITH of Michigan. Were you associated with any one there?

Mr. WANDS. No, sir; I always worked alone.

Senator SMITH of Michigan. By yourself?

Mr. WANDS. I worked alone.

Senator SMITH of Michigan. You did business as Ernest H. Wands?

Mr. WANDS. Yes, sir. I make my headquarters with a house in New York, but I have no connection with them.

Senator SMITH of Michigan. What house?

Mr. WANDS. Halstead & Harrison. They are stock brokers, but I have no connection with them at all, and never have had. Simply they are friends, and I make my headquarters there.

Senator SMITH of Michigan. What did you understand to be your duties when you went to Nicaragua?

Mr. WANDS. I understood that I was to look into the situation, to confer with the President and the other officers, and learn what they wanted. To see if I thought it could be done, and then come back and do it. In my conferences with Gen. Estrada he told me what he would like me to do.

Senator SMITH of Michigan. You knew that the Nicaraguan Government had requested the United States Government to recommend a financial expert?

Mr. WANDS. Yes, sir.

Senator SMITH of Michigan. And you answered.

Mr. WANDS. Yes, sir.

Senator SMITH of Michigan. Did you, in the course of your stay in Nicaragua, find any fraudulent or fictitious debts, or money circulation?

Mr. WANDS. There was a great deal of talk that there was some counterfeit money. But I do not know—we did not seem to be able to find out just how much there was.

Senator SMITH of Michigan. So you did not post yourself about it?

Mr. WANDS. I examined some of the bills, but nobody could tell me anything about the bills.

Senator SMITH of Michigan. Did you examine the authority for their issuance, legislative or executive?

Mr. WANDS. I talked to everybody who was there. That is, Mr. Diaz was then the minister of finance. I talked to him, and got everything I could about it.

Senator SMITH of Michigan. What Diaz?

Mr. WANDS. He is now President. He was then minister of finance and Vice President. He told me everything he knew, but did not seem to get down to anything that was in detail.

Senator SMITH of Michigan. Did he not know about it?

Mr. WANDS. He knew about it in a vague way, that here were the bills that somebody said were fraudulent.

Senator SMITH of Michigan. How much did they aggregate?

Mr. WANDS. I have forgotten how much they aggregated. I do not know that anybody knew.

Senator SMITH of Michigan. Was it talked in general terms that they aggregated about 25,000,000 pesos?

Mr. WANDS. I do not know. I never heard that.

Senator SMITH of Arizona. When you used the word "counterfeit" did you mean coin issued or circulation issued without authority of Congress, or just ordinary counterfeit money?

Mr. WANDS. There was a report that some man had issued it and put it in circulation.

Senator SMITH of Arizona. Without any authority anywhere?

Mr. WANDS. Yes. And just what it amounted to I do not know. I do not think there is any way of finding out just how much there was.

Senator SMITH of Michigan. Mr. Cuadra the other day in his testimony suggested that the amount of the moneys that were added to the circulation of Nicaragua at that time were around 23,000,000 pesos?

Mr. WANDS. I do not know that.

Senator SMITH of Michigan. Do you know whether that is part of the money covered by the fundamental debt of that Republic?

Mr. WANDS. I do not know that.

Senator SMITH of Michigan. Did you make any inquiry?

Mr. WANDS. Yes, sir; I made every inquiry I could, but I did not seem to be able to get any facts. Nobody knew.

Senator SMITH of Michigan. Did you go to the legislative records to see whether anything had been authorized?

Mr. WANDS. I went to Mr. Diaz, and his assistant, who was afterwards minister of finance, a gentleman by the name of Sandino, and some employees of the department of finance. We took it up to

gether, but they were unable to find out. They had all the archives at their hands, but they were unable to give me any more specific information about it.

Senator SMITH of Michigan. So you did not report on that subject?

Mr. WANDS. No, sir; I did not report on it that I remember. The paper money, Senator, that was in circulation at that time—that was known to be in circulation—that is, the legitimate money, in December, 1909, when Gen. Zelaya left the Presidency, was a circulation of paper money—this was given to me by the Department of Finance from the records they have—of about \$12,171,103.95 pesos; increased by the Madriz administration 13,531,500 pesos.

Senator SMITH of Arizona. Is that the increase, or does it bring it up to that amount?

Mr. WANDS. That was the increase. There was an increase, then, by the Estrada administration up to this date of 5,200,000 pesos. This money, however, that Estrada put out, they told me had been left in the treasury by Madriz when he quit the treasury, so that made a total outstanding then of 30,902,603.95 pesos.

Senator WILLIAMS. How long did Madriz last between those two administrations?

Mr. WANDS. I do not know.

Senator SMITH of Michigan. I can tell you, Senator, exactly, if you would like to know. Zelaya had 16 years, which ended in November, 1909. Madriz, that is, Jose Madriz, from November, 1909, to August, 1910; Dolores Estrada, from August to September, 1910; Juan J. Estrada, Provisional President, from September to December, 1910; and Juan J. Estrada, President through election, from January 1, 1911, to May 9, 1911, when he was driven out. Adolpho Diaz succeeded him.

Senator WILLIAMS. That man that issued 13,000,000 and put them in circulation, and had 5,000,000 more lying in the treasury ready was only in for nine months?

Senator SMITH of Michigan. He did not issue this money, according to the statement of Mr. Mallet-Prevost and of Mr. Cuadra. He is mistaken in the date.

Mr. WANDS. This was given to me; Senator, either by Mr. Diaz himself, or by his assistant. Senator, let me tell you something right here, something that I think you ought to know. I was fearful after that 16,000,000 had been placed out that something might happen, that they would put out some more, so in talking it over in New York with the bankers, to see what could be done to stop it, we decided the only way was to destroy the plates from which that money was printed. So we asked President Diaz to send a letter to the American Bank Note Co. to destroy all plates from which paper money had been printed, and that letter was sent and the plates were destroyed.

Senator SMITH of Michigan. I think I understand that. But there is such a wide discrepancy between the financial statement of President Estrada, printed in the Bluefields paper, and addressed to Minister of Finance Cuadra, and the statement of Cuadra himself, and the statement of Mallet-Prevost, and your statement, that I am of the opinion that you must have been misinformed as to the date.

Mr. WANDS. I think Mallet-Prevost must have gotten his information originally from me. I do not know. You will find it right there [indicating].

Senator SMITH of Michigan. Be that as it may, the treasury statement will disclose when it was.

Mr. WANDS. Yes, sir. This was given to me by the treasury department of Nicaragua, the finance department.

Senator SMITH of Michigan. Did you take your orders from Brown Bros. and Seligman?

Mr. WANDS. No, sir; never.

Senator SMITH of Michigan. Or from the Government of Nicaragua?

Mr. WANDS. From the Government of Nicaragua.

Senator SMITH of Michigan. Who gave you the orders?

Mr. WANDS. Whoever was president—President Diaz, because President Estrada was there only a short time after I came away from Nicaragua.

Senator SMITH of Michigan. President Diaz gave you your orders?

Mr. WANDS. He made suggestions. I do not recall that President Diaz ever gave me any orders.

Senator SMITH of Michigan. Did he give you any orders in writing?

Mr. WANDS. No. I do not think I ever received an order.

Senator SMITH of Michigan. Have you any letters or cablegrams from President Diaz regarding your duties?

Mr. WANDS. I think I may have received two or three cables from him in the course of my connection with the matter.

Senator SMITH of Michigan. Have you any of them with you?

Mr. WANDS. No, sir; I have not. One cable I remember, was asking me to see whether that concession over on the east coast, which was owned by an American, who owed a lot of money—I have forgotten—asking me to find out whether he was likely to pay his contracts. I could not find out that he was likely. That was one cable. I do not think I got over two or three cables from the President at any time, or all the time.

Senator SMITH of Michigan. You went to Managua in order to secure the Nicaraguan Assembly's ratification of the Knox-Castillo treaty, did you not?

Mr. WANDS. No, sir; that was the minister's duty. I had nothing to do with that, sir.

Senator SMITH of Michigan. And made no claim to having any such service, and took no part?

Mr. WANDS. No. The only thing that I ever—I did not have anything to do with it at all.

Senator SMITH of Michigan. Were you at the Nicaragua Assembly when that treaty was considered?

Mr. WANDS. No, sir; I do not think I was in Nicaragua, even. I think I was in this country.

Senator SMITH of Michigan. You do not know how long the treaty was before the Assembly before it was ratified?

Mr. WANDS. My recollection is that it was some time, but I do not remember definitely. It was not one of my duties.

Senator SMITH of Michigan. If you do not know, just say no, and I will not press it at all. I only want to have the facts. I would rather have you say no, if that is the case, than to have you guess at it.

Mr. WANDS. Yes.

Senator SMITH of Michigan. Do you know whether the treaty was read before the Assembly at all?

Mr. WANDS. I do not know, sir.

Senator SMITH of Michigan. And you will not admit that that treaty was rushed through at your dictation?

Mr. WANDS. No, sir.

Senator SMITH of Michigan. Without being read, and that you told the Government of Nicaragua at that time that if the treaty was not ratified, in so many words—it is stated 24 hours—that you would leave at once for the United States, and that the bankers would drop the loan?

Mr. WANDS. I did not at any time.

Senator SMITH of Michigan. And you did not tell that to an agent of this Government there at that time?

Mr. WANDS. No, sir; not to anyone at any time.

Senator SMITH of Michigan. You were really working for the Nicaraguan Government?

Mr. WANDS. Absolutely.

Senator SMITH of Michigan. And yet you say you only have one or two cables?

Mr. WANDS. I have some letters and I should say two or three cables. I do not think more than that. It was just simply that they did not happen to write; that is all.

Senator SMITH of Michigan. You have not them with you?

Mr. WANDS. No, sir; I have not.

Senator WILLIAMS. Meanwhile was the Nicaraguan Government doing a great deal of correspondence with our Department of State?

Mr. WANDS. That I do not know, Senator.

Senator SMITH of Michigan. Where did the Ethelburga bonds rest when you went to Europe?

Mr. WANDS. With private investors.

Senator SMITH of Michigan. They were resting in large blocks, were they not?

Mr. WANDS. There might have been two or three large blocks. Most of them, I think, were held by private investors.

Senator SMITH of Michigan. But you made no attempt to ascertain that fact?

Mr. WANDS. Not that I remember now. If I learned, I have forgotten.

Senator SMITH of Michigan. Do you suppose you could find the correspondence with the Government officials that you had?

Mr. WANDS. Yes; I think so.

Senator SMITH of Michigan. I wish you would make a note of it and try to find the cablegrams and letters to President Diaz and his replies.

Mr. WANDS. Yes, sir; I shall be glad to.

Senator SMITH of Michigan. Will you advise the committee what you are able to find?

Mr. WANDS. Yes, sir; I will send them over to you.

Senator SMITH of Michigan. Do you know Mr. Seeger, of London?

Mr. WANDS. No, sir.

Senator SMITH of Michigan. Did you ever meet him?

Mr. WANDS. No, sir.

(Thereupon, at 4.15 o'clock p. m., the committee adjourned until to-morrow, Tuesday, June 30, 1914, at 11 o'clock a. m.)

NEW YORK, November 7, 1911.

His Excellency Señor Don ADOLFO DIAZ,
President of Nicaragua, Managua, Nicaragua.

MY DEAR MR. PRESIDENT: The inclosed bill is from Messrs. Dexter, Osborn & Fleming, the lawyers who examined and passed upon the loan contracts. The charges are very moderate. I have approved the bill and I have also had it approved by Dr. Castrillo. I shall appreciate it if you will be good enough to have a draft sent to Messrs. Dexter, Osborn & Fleming in payment of the account.

With assurances of my high personal esteem, I am
 Your sincere friend,

ERNEST H. WANDS.

(Inclosure as above.)

MANAGUA, December 20, 1911.

Mr. ERNEST H. WANDS, *New York.*

DEAR SIR: I acknowledge receipt of your esteemed letter of the 7th of last month, accompanying a bill for \$400 gold in favor of Messrs. Dexter, Osborn & Fleming, the lawyers who examined and passed upon the loan contracts.

I have sent this bill to the minister of finance with my instructions to pay it as soon as he may deem it possible.

I seize this opportunity to renew to you the assurances of my high personal esteem.

Sincerely, yours,

ADOLFO DIAZ.

MANAGUA, 23 de Diciembre de 1911.

Señor Don ERNEST WANDS, *New York.*

MUY SEÑOR MÍO: Envío á U. un giro con valor de cuatrocientos pesos oro americano (\$400) contra la casa Zimmerman and Forshay, de esa ciudad, y á favor de los señores Dexter, Osborn & Fleming, para que U. tenga la bondad de entregárselos en pago de los honorarios que devengaron en el estudio y formación de los contratos de empréstito.

Con muestras de alta consideración, tengo el honor de suscribirme de U. muy atento S. S.

ADOLFO DIAZ.

JANUARY 20, 1912.

His Excellency Señor Don ADOLFO DIAZ,
President of Nicaragua, Managua, Nicaragua.

YOUR EXCELLENCY: I have the honor to acknowledge the receipt of Your Excellency's letter of December 23, 1911, inclosing a draft for \$400 in favor of Messrs. Dexter, Osborn & Fleming, the lawyers who passed on the loan contracts. I have delivered the draft to Messrs. Dexter, Osborn & Fleming and I am inclosing herewith their receipt for \$400.

With assurances of my highest personal esteem, I am,

Your Excellency's most obedient servant,
 (Signed)

ERNEST H. WANDS.

NOVEMBER 9, 1911.

His Excellency Señor Don ADOLFO DIAZ,
President of Nicaragua, Managua, Nicaragua.

MY DEAR MR. PRESIDENT: Your Excellency will remember that I was especially gratified when I learned, on my recent visit to Managua, of the great increase in the customs receipts in the last few months. Because of this improvement I was inclined to believe that I could arrange with the bankers to turn over to Your Excellency's Government a part of the customs receipts

each month. I did not talk to you about it, because I wished first to submit the suggestion to Messrs. Brown Bros. & Co. and J. & W. Seligman & Co.

I have talked the matter over with the bankers and I am now convinced that if a formal application on the following lines should be received from the Republic of Nicaragua the bankers would be willing to grant it:

That is to say, that if Nicaragua should ask the bankers to grant it a certain sum received from the customs collections each month, over an amount of \$100,000, the bankers would be willing to return to Nicaragua the excess over \$100,000 up to a limit of \$50,000 in December, \$40,000 in January, \$40,000 in February, \$30,000 in March, \$30,000 in April, \$20,000 in May, \$20,000 in June, and \$10,000 in July

This, of course, would be without prejudice in any way to the contract, and would be subject to cancellation at the pleasure of the bankers.

Your Excellency will, of course, understand that the arrangement would not be canceled unless something entirely unexpected should develop.

I am also pleased to be able to inform you that the prospects for the ratification of the treaty are very good.

With assurances of my highest personal esteem, I am,

Yours, very faithfully,

ERNEST H. WANDS.

MANAGUA, December 20, 1911.

Mr. ERNEST H. WANDS, *New York.*

DEAR SIR: I am in receipt of your favored letter of the 9th of November last, wherein you mention that on account of your gratification of the custom receipts of the few months preceding your last visit to Nicaragua you thought it would be likely to arrange with the bankers, the turning over to the Nicaraguan Government, monthly, a part of the said custom receipts.

It was further suggested by yourself that if the Nicaraguan Government made a formal application the bankers would be willing to grant our request in the form you are kind enough as to point out—an arrangement which would be subject to cancellation at the bankers' pleasure, whenever any unexpected cases should arise.

Due consideration is being given to the indications just quoted from your letter should the application be made in the shape and form kindly suggested by you.

Hoping that the prospects for the ratification of the treaty have improved by this time.

I am, with assurances of my high personal esteem,

Sincerely, yours,

ADOLFO DIAZ.

NOTE.—The application for the payments suggested in these letters was not made because of the advances of \$255,000 made by the bankers.

E. H. WAND.

DECEMBER 19, 1911.

His Excellency Señor Don ADOLFO DIAZ,

President of Nicaragua, Managua, Nicaragua.

YOUR EXCELLENCY: Five different commercial organizations have adopted resolutions urging the Senate of the United States to approve the ratification of the treaty between Nicaragua and the United States. The last organization to take this action was the Chamber of Commerce of the State of New York, which includes among its members the most prominent citizens of that city. I am inclosing a copy of the resolution adopted by that body.

With assurances of my highest personal esteem, I am, Mr. President,

Yours, very faithfully,

ERNEST H. WANDS.

(Inclosure.)

[Cable message.]

(Received at Central Cable Office, 16 Broad St., New York, Jan. 6, 1912. D 434.)

(313 MC. QT. Plain, Managua, Nic. 49.)

WANDSNEST, *New York*:

My Government desires discount Deitrick bills in New York. Urge strong necessity of this upon concessionaires. Refer Brown's for details. In view of past and possible future relations my Government feels disposed to expect prompt action on these bills which have been sent to Amsinck for acceptance.

DIAZ.

(51 op.)

JANUARY 8, 1912.

His Excellency Señor Don ADOLFO DIAZ,

President of Nicaragua, Managua, Nicaragua.

MY DEAR MR. PRESIDENT: The inclosed clipping from the New York Times of January 5, 1912, will probably be of interest to Your Excellency, because it tells of the organization of the National Bank of Nicaragua.

With assurances of my highest personal esteem, I am, Mr. President,
Yours, very faithfully,

ERNEST H. WANDS.

(Inclosure.)

JANUARY 13, 1912.

Excmo. Señor Don ADOLFO DIAZ,

President of Nicaragua, Managua, Nicaragua.

MY DEAR MR. PRESIDENT: I have the honor to inclose herewith a copy of a resolution adopted by the Produce Exchange of New York City, urging the ratification of the treaties.

With assurances of my highest personal regards, I am,
Yours, very faithfully,

ERNEST H. WANDS.

FEBRUARY 1, 1912.

Excmo. Señor Don ADOLFO DIAZ,

President of Nicaragua, Managua, Nicaragua.

YOUR EXCELLENCY: I have the honor to inclose herewith a copy of a resolution adopted by the National Board of Trade, urging the ratification of the treaties.

With assurances of my highest personal regard, I am,
Yours, very faithfully,

(Signed)

ERNEST H. WANDS.

Whereas the Government of the United States has just signed, at Washington, with the Governments of Nicaragua and Honduras, respectively, conventions for the placing of loans in the United States secured by the customs revenues, which are to be administered by a collector general approved by the President of the United States; and

Whereas these two sister Republics will thereby be enabled to refund their public debts, discharge their obligations, construct railroads and other needed improvements, assist in establishing their finances on a sound basis, and prepare the way for more extended and intimate commercial relations: Therefore be it

Resolved, That the National Board of Trade entirely approves of the conventions recently signed between the Governments of Nicaragua, Honduras, and the United States, and earnestly recommends that the Senate of the United States ratify the same.

MARCH 25, 1912.

His Excellency Señor Don ADOLFO DIAZ,
President of Nicaragua,
Managua, Nicaragua.

YOUR EXCELLENCY: I have the honor to inclose for your information a copy of a letter received by me from Mr. Howard Elting, vice president of The Chicago Association of Commerce, together with a copy of a resolution in favor of the Nicaraguan treaty adopted by The Chicago Association of Commerce on March 21. This association is one of the very most important commercial bodies in the United States.

With assurance of my highest personal esteem, I am,
 Your Excellency's most obedient servant,

ERNEST H. WANDS.

(Inclosures as above.)

[Translation.]

THE CHICAGO ASSOCIATION OF COMMERCE,
 20 WEST JACKSON BOULEVARD,
Chicago, Marzo 23, 1912.

Mr. E. H. WANDS,
71 Broadway, New York, N. Y.

MUY SEÑOR Mfo: La carta de Ud. del 4 de Marzo no había sido contestada antes por haber tenido que tratar esta cuestión con el Comité de Comercio Extranjero de nuestra Asociación, el que, desde el recibo de la carta de Ud., ha estudiado prolijamente el asunto y adoptado una resolución de la cual acompaño una copia a la presente.

Ello significa que la Asociación hará, por conducto de sus representantes en Washington, cuanto le sea posible para satisfacer los deseos de Ud., y yo le doy las gracias por habeme llamado la atención sobre el particular.

Esperando que lo anterior pueda ser de alguna utilidad para Ud., créame su muy atento y S. S.,

HOWARD ELTING, *Vice presidente.*

RESOLUCION ADOPTADA POR EL COMITE DE COMERCIO EXTRANJERO DE LA ASOCIACION DE COMERCIO DE CHICAGO, MARZO 21, 1912.

[Traduccion.]

LA ASOCIACION DE COMERCIO DE CHICAGO,
 20 WEST JACKSON BOULEVARD,
Chicago.

Por cuanto se han firmado convenciones en Washington entre el Gobierno de los Estados Unidos y los Gobiernos de Nicaragua y Honduras para la colocación de empréstitos en los Estados Unidos, los cuales deben ser garantizados con las rentas de aduanas de los dos Gobiernos contratantes, las cuales aduanas deben ser administradas por un administrador general con aprobación del Gobierno de los Estados Unidos, y

Por cuanto por tal arreglo dichos Gobiernos quedarán en capacidad de liquidar sus deudas públicas y otras obligaciones, así como de atender al desarrollo de los transportes y otras mejoras necesarias, haciendo de tal modo posible el establecimiento de sus finanzas sobre bases sólidas y estrechar las relaciones comerciales con los Estados Unidos; por tanto.

Se resuelve, Que, nosotros, el Comité de Comercio Extranjero de la Asociación de Comercio, por la presente recomendamos al comité ejecutivo de la Asociación que la Asociación de Comercio de Chicago apoye el plan general de dichas convenciones y recomiende su pronta adopción por el Senado de los Estados Unidos.

Aprobado por el comité ejecutivo, Marzo 22, 1912.

HOWARD ELTING, V. P.

MARCH 27, 1912.

His Excellency Señor Don ADOLFO DIAZ,
President of Nicaragua, Managua, Nicaragua.

YOUR EXCELLENCY: I have the honor to inclose herewith the executed contract for the currency plan and the supplemental loan. This contract was signed

yesterday afternoon by Dr. Castrillo for Nicaragua, by Mr. James Brown for Brown Bros. & Co., and by Mr. Frederick Strauss for J. & W. Seligman & Co.

I expect to sail for Europe this week to attend to some matters in connection with the Ethelburga loan. I have requested Gen. Diaz to advise you by cable of my plans and to assure you that I shall be glad to look after any other matters in Europe for Your Excellency, if there are any requiring attention.

With assurance of my highest personal esteem, I am,

Your Excellency's most obedient servant,

ERNEST H. WANDS.

(Inclosure as above.)

MANAGUA, 16 abril de 1912.

Señor ERNEST H. WANDS, *New York.*

MUY SEÑOR Mío: He tenido el honor de recibir sus apreciables cartas de 19 y 25 de marzo último, lo mismo que la copia del contrato escriturado sobre conversión monetaria y crédito suplementario, todo lo cual le agradezco altamente.

Deseo que tenga yed. muy feliz viaje y que alcance éxito completo en sus asuntos, tan acertadamente encomendados á U.

Espero aquí sus gratas órdenes y me suscribo de U. muy atto. s. s. y amigo.

ADOLFO DIAZ.

OCTOBER 30, 1912.

His Excellency Señor Don ADOLFO DIAZ.

President of Nicaragua, Managua, Nicaragua.

MY DEAR MR. PRESIDENT: I am inclosing herewith a certificate from the American Bank Note Co., dated October 23, 1912, certifying to the destruction of plates for bank notes of the Republic of Nicaragua. This certificate and two others were delivered to me to-day. I am delivering one of the others at Messrs. Brown Bros. & Co. for their files and the other one I am retaining for my own files.

With the assurance of my highest personal esteem, I am

Your Excellency's most obedient servant,

ERNEST H. WANDS.

(Inclosure as above.)

NEW YORK, July 3, 1912.

His Excellency Señor Don ADOLFO DIAZ,

President of Nicaragua, Managua, Nicaragua.

MY DEAR MR. PRESIDENT: The progress toward reestablishing the solvency and credit of Nicaragua since the American bankers undertook, about a year ago, to aid Nicaragua in its efforts in this direction has been very great, although perhaps not apparent to those who are having to bear the consequences of the ill-advised action of previous administrations in bringing about the state of affairs that existed a year ago and that to some extent still exists. Those now in responsibility, and on whom still falls the duty of solving the present difficulties and to bear the evil consequences of past mismanagement, will therefore probably be interested in the following:

A year ago the foreign debt was in default, in spite of the fact that a large sum of money was on deposit with London bankers legitimately belonging to Nicaragua, but withheld from it on the ground that the fund was dedicated to the building of a railroad, the concession for which, according to Nicaragua, was invalid. Protracted negotiations on the part of Nicaragua, represented by the bankers, resulted, first, in a settlement with the Ethelburga Syndicate, which, however, the bondholders declined to carry out, and subsequently in a settlement with the Council of Foreign Bondholders, which settlement has been ratified unanimously by all the bondholders present at meetings held in both Paris and London. It now remains simply to get the deposit of a sufficient amount of bonds to obtain from the London bankers the release of the moneys there deposited. These moneys amount to about £370,000 sterling, of which about £140,000 are reserved for the payment of coupons up to and including January 1, 1913, on the foreign bonds, the arrears of sinking fund, and the payment of the expenses of the Council of Foreign Bondholders. The rest of the money, amounting to about \$1,100,000 American gold, will be applied by the bankers, when received, in accordance with the agreement between them and the Government of Nicaragua, with the details of which you are familiar.

Collector Ham has remitted to the bankers sums aggregating up to the present time about \$387,000, which money, although at present tied up, will be released just as soon as the settlement with the Council of Federation Bondholders has been carried through in its entirety. The \$1,100,000 American gold above referred to will, together with these customs, so far remitted, amount in all to about \$1,487,000. In addition to this, no doubt additional remittances will be received by the bankers between now and the time that the above settlement has been carried through. In fact, there must now be quite a sum in the hands of the collector awaiting remittance to New York. These sums will be applied to the reduction of debt due the bankers and for expenses advanced by them.

Should the report of the railroad manager, whom the bankers have sent to Nicaragua, turn out to be favorable so as to cause the bankers to exercise their option, there will be another million dollars available for the payment of debts. These sums would put Nicaragua entirely out of debt to the American bankers. Moreover, the only charge thereafter on the revenues would be the amount of the annual service beginning January 1, 1913, on account of the foreign debt, being the reduced sum of about \$375,000 per annum. The order and system which have been put into effect in connection with the customs should enable Nicaragua to increase its revenue derived from this source; the currency will by the end of the year have been put on a gold basis, and altogether the prospects will then look bright, even though now and during the next few months to come the Government will no doubt have to face some difficulties.

The bankers tell me that when this has been done, and when the report of the manager, whom they have sent to Nicaragua to operate the railroad and to report to them concerning its value, has been received, they will occupy themselves with the option without delay to the best of their ability. Of course they can reach no decision regarding the railroad until the report of the new railroad manager is received by them.

On the basis that the revenues for the year will be \$900,000 gold, you will see that \$430,000 must first be kept by the bankers under the original agreement in connection with the foreign debt. Of course, as soon as the settlement with the council of foreign bondholders has taken place, this reserve will be free, but at the present time at least the bankers can do nothing with this money except hold it in accordance with the agreement. This amount, deducted from \$900,000, would leave about \$470,000 to be accounted for. Assuming the cost of collection to be \$45,000, the balance would be reduced to \$425,000. This would be practically at the rate of \$35,000 per month, but, since the revenues are very good at the present time, let us say \$40,000 per month. You will recall that the bankers are now paying you at the rate of \$30,000 per month for running expenses, in addition to which they have recently consented to the payment out of customs revenues of about \$3,750 per month additional, for the Mixed Claims Commissions' expenses, so that you will see the amount of money which the bankers are receiving out of the revenues on account of interest due them on their advances is, after all, a pretty small sum of money. I mention this because perhaps, by reason of your dealings heretofore with foreign bankers, you may be under the impression that the New York bankers are working solely in their own interests, and not for Nicaragua. I have now had many dealings with Messrs. Brown Bros. & Co. and J. & W. Seligman & Co. and have found them very zealous and fair on behalf of the interests of Nicaragua. Their only chance of profit, as you know, lies in the exercise of certain options which may or may not ultimately prove of value. They have evidenced their desire to be helpful by first increasing the gold reserve by \$500,000, then by advancing for expenses \$30,000 per month for a definite period of time, and now by their willingness to allow a draft for the whole amount of these advances at once, and, finally by letting the customs assume the payment of the expenses of the Mixed Claims Commission.

I earnestly hope you will be able so to make your financial arrangements that you will not have to hypothecate other revenues, because I feel reasonably certain that you are at this moment passing through the worst period of your money stringency, and that within six months, probably even within less time, you will begin to see the benefits of the long period of self-denial.

If the United States Senate should ultimately reject the treaty, undoubtedly it will work some hardship to you, since it will not be possible to negotiate a loan without a treaty upon the favorable terms which have been offered by the bankers. Nevertheless, the Republic would reap the great benefit of the course which she has been pursuing in having her customs collected as at present, and

with the excellent showing which this has made possible, a nontreaty bond could undoubtedly, in my opinion, be negotiated upon advantageous terms. I believe it would be possible to negotiate a nontreaty loan after the collector general of customs has been in office for a full 12 months. I am not sure, however, that it would be well at the beginning to have such a loan as large as \$15,000,000; but it could readily be made large enough to take care of Nicaragua's reasonable necessities for a number of years. Provision could also be made in the contracts for the issue of additional bonds from time to time as the demand for the money arose and the financial condition of the country should warrant.

Of course, this is merely an opinion on my part. I have not thought it prudent at the present time to discuss this matter seriously with the bankers.

With assurances of my highest personal esteem, I am,

Yours, very truly,

ERNEST H. WANDS.

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Putting through treaty 304

See 307 for similar measure

